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THE VIRGINIA DEBT CONTROVERSY[1]

A STATE in the American union possesses a unique status incapable of easy definition. It occupies a middle position, superior to that of a private litigant, but below that of a sovereign or independent nation. A state cannot in general be sued by individuals without its consent, but the performance of contracts in which individuals are concerned can be forced by the Supreme Court. When the contract is between two states it has a binding force greater than that of any treaty between nations. For while the general sanctions of international law are alone relied upon for the enforcement of treaties, an American state is definitely answerable to the Supreme Court for the performance of its obligations to other states, and is subject to judgment in case these obligations are neglected. Theoretically, of course, a state may resist the execution of a decree of the Supreme Court, but such resistance has been tried so seldom that it is out of the question as a practical course of action. The Supreme Court, it may be noticed, in deciding between states, exercises a power greater than that of an international arbitrator. It has the authority to

[1] I desire here to acknowledge my special indebtedness to Hon. A. A. Lilly, attorney-general of West Virginia, for supplying valuable documentary material, and to Col. William A. Anderson of Lexington, former attorney-general of Virginia, a man thoroughly familiar with every stage of the litigation, for his kind assistance in criticizing my manuscript and affording me the courtesy of a long interview. Valuable material, besides, has been lent to me, and bibliographical aids have been furnished by Dr. Herbert Putnam, librarian of Congress, and Dr. H. R. McIlwaine, state librarian of Virginia. Through the office of the clerk of the Supreme Court of the United States I have been kept advised of many important points in the litigation.

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summon a defendant state on the filing of the plaintiff state's bill—a power which belongs to no international court. Its decrees, furthermore, are of more force than an arbitral award, for they are the law of the land. Thus, while a controversy between states may be quasi-international, and may often rest in principle on the law of nations, yet subordination and not sovereignty is its controlling feature.

When West Virginia parted from Virginia in 1863 there were two important matters which remained for later adjustment —the fixing of the boundary, and the apportionment of the debt. The first of these was settled with reasonable promptness by the Supreme Court in 1870, when the right of West Virginia to two counties in dispute was upheld.[1] The debt question has remained unsettled for half a century, during which time no part of the common debt has been assumed by the new state, while in the Old Dominion the debt has been ever present as a vexing problem, both in finance and in politics. The relations ensuing between the states, so far as they pertain to this debt, constitute the theme of this article.

The amount of Virginia's debt was $33,897,073.82 on January 1, 1861, a date selected because of its convenience in the calendar year, and because it roughly corresponds to the secession of Virginia and the *de facto* separation of the two states. An analysis of the substance of the debt will show that it comprised an elaborate series of schedules, representing expenditures, mostly since 1830, for river improvements, surveys, swamp reclamation, canals, roads, turnpikes, railroads, bridges and navigation companies. These expenditures, besides revealing a lively activity on the part of the state government for various forms of internal improvements, bring to light certain significant features of Virginia's method of promoting economic development. The practice of subsidizing railroads and im-

[1] In this case the jurisdiction of West Virginia over Berkeley and Jefferson counties was sustained. The acts of the "restored" government of Virginia were treated as valid, and the case therefore involves a recognition by the Supreme Court of the legality of the process by which West Virginia was created. This was simply an application of the Supreme Court's general policy of acquiescence in the settlement of political questions. 11 Wallace 39.

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provement companies was prominent, and in many cases the state became a stockholder in private corporations, while in other cases the State Board of Public Works constructed purely governmental projects under the form of a corporation. The Covington and Ohio Railroad Company, for instance, was not a private corporation at all, but merely a legal form through which the Board of Public Works acted.[1]

That the east enjoyed more than a proportional benefit from these improvements was the repeated charge of West Virginia leaders. Representative Whaley, speaking in 1862 in the House of Representatives, declared that of the "forty-four millions" of state debt expended in internal improvements up to January 1, 1861, only one million and a half had been spent in the counties comprising West Virginia.[2] His statement was only a rough estimate, and of course did not take into account the considerable amount of bordering territory later added to West Virginia. Granville D. Hall, in his *Rending of Virginia*, dwells upon the partiality of the Richmond government to the eastern portion of the state, and shows that after the Baltimore and Ohio Railroad had extended its branch to Winchester the Virginia assembly refused further charters.[3] The Cleveland and Pittsburgh line in seeking a connection with Wheeling was denied a charter which would permit the building of a road on the Virginia side, being thus forced to run its line on the western bank of the Ohio, and to establish a terminus one mile away from its objective point. Moreover, from 1823 to 1861, the debt period, not a single public building had been completed within the limits of the new state.[4] These grievances, in the view of West Virginians, were aggravated by the greater pro-

[1] Report of Special Master, Commonwealth of Virginia *v.* State of West Virginia, March 17, 1910 (Charleston, W. Va., 1910).

[2] The "forty-four millions" was figured without reference to the amount redeemed by 1861. *Cong. Globe*, 37th Congress, 2nd session, p. 3269.

[3] Hall, Rending of Virginia, p. 60 ff.

[4] A sum of $98,000 out of an appropriation of $125,000 had been expended on the Trans-Alleghany Lunatic Asylum at Weston in Lewis county, which was unfinished in January, 1861. The remaining $27,000 was seized by the "restored" government and used in prosecuting the war. Debt Suit, Virginia *v.* West Virginia, (compiled by Attorney-General A. A. Lilly of West Virginia, 1913) p. 158.

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portionate representation of the east in the legislature as compared with the west, and by various discriminations in the levying of taxes which favored eastern landlords and slave-owners.

On the other hand, men speaking for Virginia have claimed that the indebtedness was common to both sections, incapable of minute dissection according to locality, that it was largely incurred for improvements which benefited West Virginia, that many of the eastern lines of communication were designed ultimately to penetrate West Virginia territory, that the enormous increase in property values in West Virginia since the war gives evidence of the benefit derived from these expenditures, and that without the votes of the western delegates in the Virginia assembly only a small part of them would have been possible.[1] After balancing the claims of both sides, we may turn to the finding of the special master appointed by the Supreme Court in 1907 and discover that the total "expenditures made by the commonwealth of Virginia within the territory . . . of West Virginia since any part of the debt was contracted" was $2,811,559.98, which is less than one-tenth of the total debt as it stood in 1861.[2] We must, however, guard against the conclusion that West Virginia's rightful share of the debt is equivalent to the calculated amount of expenditures within her limits.

At the time of separation there were various agreements between the newly formed state and the "restored" state of Virginia regarding the matter of debt distribution, though of course there were no agreements to which Confederate Virginia

[1] Brief for Virginia in Virginia *v.* West Virginia, decided March 6, 1911. Statistics are submitted in this brief, showing that the assessed value of all property in West Virginia has increased from 126 millions of dollars in 1867 to 937 millions in 1908, an increase of 643 per cent; while in Virginia for the same period the assessed value of taxable property advanced from 354 millions to 661 millions, only 84 per cent. In attributing this advance to the old state's policy of internal improvements before the war, the counsel indulges in a decidedly specious argument.

[2] It is fair to state, however, that the master disallowed a number of items of expenditure on the ground that they were made in the form of stock subscriptions in improvement companies over whose property the state had no control except as a stockholder, and that technically these were not expenditures by the commonwealth. The addition of these items would swell the total to $3,915,960. Report of Special Master, paragraph iii.

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was a party. On August 20, 1861, a Union convention at Wheeling claiming the character of a constituent assembly acting for all of Virginia (a claim which, however irregular, has nevertheless been legally sustained by various acts and decisions during and after the war) passed an ordinance to "provide for the formation of a new state out of the territory of this state." The following provision was contained in article 9 of this ordinance:

> The new State shall take upon itself a just proportion of the public debt of the Commonwealth of Virginia, prior to the first day of January, 1861, to be ascertained by charging to it all the state expenditures within the limits thereof, and a just proportion of the ordinary expenses of the State government since any part of said debt was contracted, and deducting therefrom the moneys paid into the treasury of the Commonwealth from the counties included within the said State during said period.[1]

If this provision should be regarded as binding upon the two states after reconstruction it would not only require West Virginia's assumption of a just share of the debt, but would determine, at least in general terms, the basis on which such apportionment should be made. The problem of definitely applying this much-mooted article, and of determining to what extent it should be deemed binding, has persisted as one of the leading issues throughout the whole litigation.

The constitution of West Virginia, framed by convention in November, 1861, and ratified in April, 1862, bound the new state to assume an "equitable proportion" of the debt up to January, 1861, and directed the legislature to ascertain the amount "as soon as possible" and to provide for its liquidation. The legislature of the "restored state," accepting the terms expressed in this constitution, gave its consent in May, 1862, to the creation of the new state. Congress, by an act of December 31, 1862, added its sanction to this agreement by admitting West Virginia into the union on the basis of her constitution and Virginia's act of consent. This action of Congress sealed the contract

[1] Hall, Rending of Virginia, p. 380; 220 U. S. 25.

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between the states by which West Virginia was bound to pay an "equitable proportion" of the debt.[1]

Virginia complains that while she has made repeated efforts to secure a peaceable adjustment with West Virginia, and thus avoid a suit in the Supreme Court, the latter state has steadily refused to treat on the subject. It appears that the legislature of West Virginia in 1867 directed the governor to appoint commissioners to adjust the debt with Virginia. At the time, however, a suit between the two states involving two border counties was pending in the Supreme Court, and obviously no agreement could be reached until the exact extent of West Virginia was settled. Delay was also due to the anomalous condition of Virginia during reconstruction, the state not being readmitted into the union until 1870. In that year Virginia appointed three commissioners who were met by a committee of the West Virginia legislature, but no progress was made by this conference. Virginia in 1871 made an offer of "arbitration" by citizens outside the two states, but this was rejected by West Virginia on the ground that citizen commissioners within the states would be more familiar with the case, and that any adjustment should be subject to the ratification of the legislature of each state. A debt commission of three was created by West Virginia in 1871, and proceeded to Richmond to search documents, but the information solicited from the second auditor of Virginia was declined, and Governor Walker of Virginia refused to appoint commissioners to coöperate with the representatives of West Virginia.[2] The situation was now further

[1] Debt Suit, Virginia *v.* West Virginia, (Compiled by Attorney-General A. A. Lilly, Charleston, W. Va., 1913) p. 398 ff; Poole, Charters and Constitutions, pt. ii, 1989, 1992; Memorial of the Commissioners appointed by the Convention of West Virginia for Admission into the Union, Sen. Misc. Doc., no. 99, 37th Congress, 2nd session.

[2] The commissioners from West Virginia addressed a communication to the second auditor of Virginia, calling for specific information on a series of points touching the amount and disposition of the debt. To have supplied this information would have necessitated a laborious search through the records of the second auditor's office, and that of the Board of Public Works, and the information was therefore not furnished, though all the books and records were made available for the commissioners' inspection. Governor Walker's action in declining to appoint commissioners to treat with the West Virginia commission was due to his distrust of this method of settling the

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complicated by certain measures of the Virginia legislature which funded the debt in such a way as to make settlement even more remote.

To these troublesome funding acts we must now turn our attention, noticing their bearings upon the interests of the bondholders and upon West Virginia's rights. The debt had piled up during the war and reconstruction,[1] till in 1871 the entire debt of Virginia amounted to forty-seven millions (counting the accumulated interest which had partially lapsed). The measure passed in 1871 for funding this debt proved exceedingly vexatious to the state. The law provided that new bonds for two-thirds of the debt were to be issued—certificates being given for the remaining third—the interest to be at six per cent, and the maturing coupons to be receivable for taxes. It soon became clear that this act, the passage of which had been hasty and not free from suspicion, would put the state under a burden which it could not bear. The people would not submit to an increase in taxation sufficient to carry the heavy interest payments and at the same time provide properly for the extension of popular education, the maintenance of the civil government, the support of state charities, and the care of the old soldiers. Popular feeling ran high as the debt question was carried to the hustings, and the struggle waxed hot between the "Funders" and the "Readjusters," the latter party favoring a scaling of the

debt, and to the fact that the younger state had refused arbitration. The commission from the new state after an independent investigation announced the finding that West Virginia's share of the debt was $953,360.28. The only result of these unfortunate incidents was to create a misunderstanding, and to cause the West Virginia authorities to feel, though perhaps unjustly, that they had been offended. Report of West Virginia Commissioners, West Virginia Compilation, I, 457–472; Debt Suit, pp. 12–20.

[1] In accordance with the general rule of international law the interest payments to Union creditors ceased during the war, but certain sums were remitted in coin to London for foreign bondholders, and small payments were made in Virginia in Confederate money. There were further payments during the period of reconstruction. Virginia's counsel showed in the 1911 suit that Virginia had paid nearly 11 millions on the undivided debt between 1861 and 1871. $7,255,723.66 was paid in interest during this decade, and bonds were redeemed to the extent of $3,710,449.67, thus making a total of $10,966,173.33, for which sum Virginia preferred, in her own right, an equitable claim for contribution. Complainant's Reply Brief, Debt Suit, 535–536; Hartman *v.* Greenhow, 102 U. S. 676.

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debt, while the former insisted on the execution of the hard terms of the funding bill.

In 1879 a refunding scheme was enacted known as the "McCulloch bill" with a lower (graduated) rate of interest, but the act was unsuccessful owing to the failure of a sufficient number of the bondholders to avail themselves of it.

A landslide for the "Readjusters" led in 1882 to the passage of the "Riddleberger bill." The amount of the debt was restated at 21 millions, and bonds bearing three per cent and payable in fifty years were to be issued for any outstanding obligations of the state at ratios definitely specified in the case of each class of securities. It soon became clear that the Riddleberger settlement was unsatisfactory. The people in general approved it, but the correctness of the rate of scaling was questioned, and it was not sufficiently tempting to induce many of the old bondholders to accept its terms.[1]

Moreover, a serious difficulty had arisen in the meantime by reason of the tax-receivable feature of the old coupons. The state treasury was finding itself sadly embarrassed by the presentation of coupons in large numbers for the settlement of taxes, and a coupon agency maintained by bondholders was operating to intercept the state's revenue by selling coupons to tax-payers. A veritable legal war ensued between the State of Virginia and the bondholders, in the course of which the ingenuity of the legislature in obstructing the use of the tax-paying coupons was matched against the authority of the federal courts to which the "merciless bondholders" applied. To free the state from what seemed an intolerable situation, the tax-receivable feature of the act of 1871 was repealed. This repeal was invalidated as an impairment of contract, and then various devices, popularly known as "coupon killers" and "coupon crushers" were adopted for defeating the right to use coupons

[1] For the bearings of the funding acts upon Virginia's relation to the bondholders, see Special Message of the Governor of Virginia transmitting the Report of the Commission appointed on the Public Debt, Jan. 14, 1892. (This message, with accompanying documents, was recently reprinted for the use of the West Virginia Debt Commission.) The effect of these measures upon the internal politics of Virginia is vividly treated in Royall, History of the Virginia State Debt Controversy (Richmond, 1897).

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for tax payment, such as forcing upon the tax-payer the expense of a suit in order to "verify" the coupons, excluding expert testimony to prove their genuineness, subjecting the coupons to a tax, and withholding the remedy of mandamus. These obstructive proceedings were declared invalid by the Supreme Court, but they served the purpose for the time, and were promptly followed by other provisions equally effective in protecting the treasury against the coupon brokers who were bidding fair to absorb a large part of the state's revenues.[1] At the same time the activities of "anti-coupon" men became pronounced, and those who tendered coupons for taxes were denounced in public meetings as enemies of the state.

Owing to the small number of creditors who accepted the new bonds provided in the refunding acts of 1879 and 1882, the debt by the year 1890 had become nearly unmanageable. The assembly therefore authorized a commission to negotiate with the bondholders. The result was the "Olcott settlement," enacted into law in 1892, by which the debt was scaled down, without, however, involving the charge of repudiation, since the bondholders by their committee had consented to the adjustment. In exchange for twenty-eight millions of outstanding bonds this act provided for nineteen millions of new bonds to run for one hundred years, the interest to be two per cent for ten years and three per cent for ninety years, the coupons not to be receivable for taxes. This settlement was, on the whole, satisfactory to the state.

Such features of these funding acts as concerned West Virginia now demand attention. The original funding act of 1871, assuming in the preamble that West Virginia contained at the time of separation "about one-third of the territory and population of the state of Virginia," provided for the surrender of the old

[1] A number of these cases reached the Supreme Court. The obstructive regulations were declared invalid, and the original contract of 1871 by which the coupons were made receivable for taxes was held to be a binding obligation upon the state, any impairment of which was in violation of the federal constitution. In most of the decisions mandamus writs compelling treasurers to receive the coupons were sustained. Hartman *v.* Greenhow, 102 U. S. 672; Antoni *v.* Greenhow, 107 U. S. 769; Virginia Coupon Cases, 114 U. S. 269; McGahey *v.* Virginia, 135 U. S. 662.

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bonds in return for new bonds for two-thirds of the debt. For the unfunded third, certificates were to be issued providing payment "in accordance with such settlement as shall hereafter be made between the states of Virginia and West Virginia in regard to the public debt . . . at the time of . . . dismemberment." The same two-thirds division was observed in the act of 1879, and in place of a provision assuming a conditional liability for the unfunded portion, the law provided that Virginia would negotiate with West Virginia in the interest of the certificate holders and stipulated that "the acceptance of . . . certificates for West Virginia's one-third . . . shall be taken and held as a full and absolute release of the state of Virginia from all liability on account of said certificates." In the Riddleberger bill of 1882 and the Olcott settlement of 1892 the holders of the unassumed and unfunded third were still remanded to the tender mercies of West Virginia without any recourse upon the commonwealth of Virginia.[1]

These funding acts present several considerations which deserve careful attention. It will be noticed that, at a time when the division of the debt was subject to negotiation between the states, Virginia fixed her own and West Virginia's share without consulting West Virginia, and on no definite basis of apportionment other than a broad estimate that West Virginia comprised "about one-third" of the population and area of the undivided state. By her funding operations Virginia scaled down the debt, secured a lower rate of interest, and derived other advantages. By the acts subsequent to 1871 she sought to release herself from any liability for the unfunded portion.[2]

[1] A brief summary of these funding acts is to be found in the Supreme Court's decision in Virginia *v.* West Virginia, 220 U. S. 1. See also Debt Suit, p. 30 ff.

[2] In considering Virginia's liability for the unfunded third of the debt it should be noted that none of the refunding acts passed since 1871 made the surrender of the old certificates compulsory. As a matter of fact the majority of the holders declined to accept the new securities, and the refunding operations must be regarded as only partially successful. As to the original funding act of 1871, the fair inference is that the law did not release the state of Virginia from its obligation to pay the unfunded portion in case West Virginia should fail to do so. The case of Antoni *v.* Wright, tried before the highest court of Virginia, involved the question whether a valid contract had been made by the funding act of 1871 between Virginia and her creditors. The dissenting judge, Staples, in order to show that the act lacked the essentials of a

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On the other hand it may be said in her favor that the old unsatisfactory condition of the debt could not continue much longer; that until a settlement between the states should be reached the bondholders would look to her for satisfaction, whereas West Virginia might delay indefinitely without any impairment of credit; that Virginia's reorganization of the debt at a lower rate of interest would eventually inure to the advantage of West Virginia when a settlement involving interest should finally be made; and that a sum exceeding ten millions had already been contributed by Virginia on the undivided debt previous to 1871 before any funding had been undertaken.[1] However natural might be West Virginia's reasons for delaying payment, the fact remained that during the period of delay the direct responsibility to the creditors belonged to Virginia, and it was unreasonable to expect her either to postpone her refunding until a final settlement should be made, or to conduct such refunding without at least some tentative recognition of West Virginia's liability.

That the two-thirds division, however, was something more than a tentative arrangement for adjusting the debt became evident by later legislation. In 1894 the Virginia assembly passed a joint resolution creating a commission to represent the holders of the certificates and to negotiate with West Virginia for an adjustment of the long-standing debt controversy. It was provided that this commission should "in no event enter

contract, declared that the state of Virginia derived no benefit which could be regarded as a "valuable consideration," and argued emphatically that the state had not been released from its former obligation for the whole debt. In this connection he said: "If she [West Virginia] repudiates her obligations, there is no agreement or understanding absolving the state from the payment of such third. It is as much bound for the payment of the whole debt as before the passage of the funding bill." These dissenting views of Staples are quoted in a later case before the supreme court of Virginia, and this part of his argument is approvingly referred to in the majority opinion as "unanswerably clear." Greenhow *v.* Vashon, 81 Va. 336. Certificates under the later refunding acts, however, contained a definite clause precluding any recourse upon Virginia, and finally the settlement between the creditors' committee and the debt commission involved a promise on the part of the creditors to accept the amount realized as a result of a suit or of the commission's negotiations without any further recourse upon Virginia.

[1] See note 1, p. 559.

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into any negotiation . . . except upon the basis that Virginia is bound only for the two-thirds of the debt of the original state, which she has already provided for as her equitable proportion thereof."[1] Such a limitation of the powers of the commission weakened its effectiveness as an agency for securing a settlement with West Virginia.[2] By an act of 1900 the powers of the commission were modified. According to this law, whenever two-thirds of the holders of certificates based upon the act of 1871 and a majority of other certificate holders should give their consent, the commission was to be invested with control of the certificates with the understanding that the holders would accept the amount realized from West Virginia as a full settlement of all their claims. Through the proper committee the certificate holders contracted to accept the results of any settlement by the commission, or any adjudication reached by the prosecution of a suit.[3] The result of this arrangement would be that if a settlement were made by which West Virginia assumed less than one-third, then the certificate holders and not Virginia would stand the loss. All of the commission's efforts to adjust the debt by negotiation have been unavailing. In spite of this, no opportunity to pass upon the matter as a controversy between the two states was presented to the Supreme Court until 1906.

In the case of the Commonwealth of Virginia *v.* the State of West Virginia, begun in 1906, the plaintiff sought to have West Virginia's share of the debt determined and to secure a decree requiring its payment.[4] The Supreme Court was found to be

[1] Joint resolution of the General Assembly of Virginia, approved March 6, 1894, creating the "Virginia Debt Commission." This commission for negotiating with West Virginia should be distinguished from the earlier commission which effected the settlement with the creditors in 1892.

[2] The statute of 1894 did not mean that the commissioners should decline a settlement with West Virginia for less than one-third of the debt, but merely that the bondholders, not Virginia, would lose the difference in case such a settlement were made.

[3] West Virginia Compilation, I, 86–87. See note 4.

[4] For a full account of the proceedings and briefs in this suit, both on the demurrer and on the reference to a special master, see: Proceedings in the Equity Suit of the Commonwealth of Virginia *v.* the State of West Virginia, compiled by W. G. Conley,

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a slow-grinding mill. The first point of contention arose over the question of jurisdiction. West Virginia presented a demurrer and argued stoutly against the Supreme Court's jurisdiction in the case. Her counsel maintained that this was not a controversy between states, since Virginia had by her funding operations disposed of the state's interest in the deferred portion of the debt which she had assumed to be West Virginia's share. The Supreme Court made short work of West Virginia's cry of no jurisdiction,[1] and answered it by merely asserting its original jurisdiction in suits involving pecuniary demands between states. The demurrer was overruled in a brief decision which did not go into the merits of the case and expressed no opinion regarding the legal effect of Virginia's refunding operations.

Following the overruling of West Virginia's demurrer in May, 1907, the next phase of the case was the appointment of a special master to whom certain statistical points were referred for ascertainment. Each party prepared its draft of a decree of reference, supporting the drafts with contending briefs and reply briefs, besides oral arguments of counsel. The court, steering a middle course, issued as colorless a decree as possible, asking the master to investigate certain points "without prejudice to any question in the case." Then followed another series of briefs and replies occasioned by a motion on the part of the defendant to modify the decree of reference.

This contention over the wording of the decree brought to light the fundamental difference between two alternative methods of apportioning the debt. The assumed international law basis might be taken, which would require the division of the debt according to the relative area, population and taxable property of the two commonwealths. Or, on the other hand, the provision of the Wheeling ordinance might be treated as a binding agreement which would require the ascertainment of West Virginia's liability according to a definite plan of calculation. This plan assumed that on the division of a state local debts

attorney-general of West Virginia (Charleston, W. Va., 1907; 2 vols. with appendix). For convenient reference this work is cited throughout the article as the West Virginia Compilation.

[1] 206 U. S. 290.

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go with the territory to which they belong. At every stage in the controversy, the only liability which West Virginia has admitted is on the basis of the Wheeling ordinance.

Accountants who have worked on the subject have found the ordinance very difficult to apply in detail, but if the method of calculation stipulated in the ordinance were applied according to West Virginia's construction, and without including interest on the public debt as an "ordinary expense" to be proportionally charged against the new state, then it appears that West Virginia would actually have a balance *in her favor* of from $769,000 to $3,123,000, the exact amount varying according to the different ways of construing the ordinance.[1] This startling fact, it may be noticed, is proof of the wisdom of the Supreme Court in awaiting the master's preparation of full statistics before committing itself to any definite method of apportionment. No such statistical inquiry had been made when the terms of the ordinance were framed.

Virginia's attitude on the ordinance has not been one of unqualified opposition. Her counsel have contended that the ordinance fixed upon West Virginia an obligation to bear a "just proportion" of the state debt, and that its terms should never be so construed as to defeat the primary intention of securing an "equitable" settlement. To make it operative as a method of determining the amount to be assigned to each state without including interest as an ordinary expense which under its terms should be charged against West Virginia would, according to Virginia's contention, be a gross injustice. It was urged on behalf of the old state that all the provisions at the time of separation should be taken together and construed according to their obvious intent. The constitution of West Vir-

[1] The following calculations have been made on the basis of the Wheeling ordinance, the balance in each case being in West Virginia's favor. Dividing ordinary expenses on the basis of population without slaves, the balance would be $769,073.57; on the basis of total population, $2,232,042.80; on the basis of the valuation of real and personal property, $3,123,818.76. These calculations all omit interest in estimating the new state's "proportion of the ordinary expenses of the state government" during the debt period, nor are the amounts expended in improvements through corporations charged against West Virginia. Complainant's Reply Brief, Appendix no. vi, Debt Suit, p. 530.

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ginia recognized a "previous liability" and promised that the state would bear an "equitable proportion" of the debt, but omitted the terms of calculation found in the ordinance. These terms were also omitted in the act of acceptance by which the "restored" government of Virginia "conceded" to the new state its right to exist. The apportionment, according to Virginia's claim, should be made on some basis which would take into account relative population, area and property values at the time of partition.

In its decree referring the cause to a special master the Supreme Court specified in seven clauses the distinct points on which the master was to prepare findings based on evidence. He was to ascertain the amount and form of the debt on January 1, 1861; the extent and value of the territory of the two states on June 20, 1863, and the population with and without slaves at the same date. Besides these points the decree contained various items derived from the Wheeling ordinance. The special master[1] employed expert accountants and conducted many hearings, as his elaborate reports, schedules and exhibits indicate. He had little difficulty in determining the amount of the debt to be $33,897,073.82.[2] He found that the free population at the time of separation was so divided as to give West Virginia almost exactly one-third, while she possessed only 24.5 per cent of the population with slaves.[3]

An important feature of the master's report related to property valuation. The fifth clause of the decree made it necessary to ascertain the fair valuation of real and personal property in the two states on June 20, 1863. Two difficulties were en-

[1] Charles Edgar Littlefield, formerly a member of the House of Representatives, and attorney-general of Maine.

[2] Certain bonds of the commonwealth had been acquired by the state authorities and held in the "sinking fund" created for the gradual redemption of the debt, and in the "literary fund" devoted to educational purposes. Virginia urged that these sums, approximately $2,500,000, should be added to the debt, but the master ruled out the items on the ground that the acquisition of state bonds as a part of the public funds of the state was virtually an extinguishment of the debt to that amount. Master's Report, paragraph i. Virginia's objections under this head were later withdrawn, 220 U. S. 3.

[3] Master's Report, paragraph ii.

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countered here. The ravages of war had caused great depreciation of property, at the same time making its value difficult of ascertainment, and the Confederate currency of the time was a false standard by which to measure this value. The master, after examining all the available evidence, estimated that real estate in Virginia had depreciated one-half, as compared to 1860 or 1861, and made his finding on this basis, allowing for no depreciation in West Virginia, however, except in the eastern counties. This finding gave West Virginia real estate a value of 67 millions in round numbers as against 148 millions for Virginia. Regarding personal property, the master discovered an actual increase in value during the war,[1] and reported 403 millions of dollars as the valuation of Virginia, including slaves, as against 30 millions for West Virginia. The total real and personal property in 1863, including slaves, was found to be 551 millions in Virginia and 98 millions in West Virginia. Estimating the debt on this basis West Virginia would pay about 15 per cent. Without slaves the total value of all property in Virginia was found to be 300 millions and in West Virginia 92 millions; on this basis West Virginia would be charged with 23.5 per cent. of the debt.[2]

The jurisdictional question having been settled and the master's report completed, the case was reopened before the Supreme Court in March, 1911. The counsel for Virginia emphasized the broad equities of the case, declaring that, of the common debt, Virginia, "at a painful sacrifice, from the scant means of an impoverished people," had paid or assumed

[1] The quantity of personal property was considerably reduced, but, in the opinion of the special master, this was more than offset by the immense increase in the demand for such property as horses, cattle, sheep, and hogs, due to the presence of large armies. In the master's calculation allowance was made for property exempted from taxation, such as mechanics' tools and agricultural implements, and all necessary corrections due to the character of the money standard were made. Master's Report, paragraph v. The counsel for Virginia strenuously opposed this feature of the master's finding in his brief before the Supreme Court in March, 1911. Debt Suit, p. 438 ff.

[2] The exact figures were $300,887,367.74 for Virginia (76.5026 per cent), and for West Virginia $92,416,021.65 (23.4974 per cent). Master's Report, paragraph v, p. 172.

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seventy-four millions,[1] principal and interest, while West Virginia, although profiting from the liberality of the old commonwealth, "had not paid one dollar, but had refused to pay, and had denied her liability to pay any part of the debt."[2] The specific relief sought by Virginia, therefore, was to have West Virginia's portion of the common indebtedness ascertained and to secure its payment. West Virginia's original promise to bear a just proportion of the debt must be met, and in ascertaining her proportion not only the Wheeling ordinance, reasonably construed, but the later and paramount provisions of West Virginia's first constitution and the restored state's act of consent were to be considered. By these acts West Virginia was made liable for an "equitable" share of the debt, and if she had not assumed it Congress would never have consented to the erection of the new state. Proceeding to an analysis of the master's findings, Virginia's counsel then insisted that, in spite of the master's conclusion, all expenditures by Virginia through joint stock companies within the limits of the new state should be charged against West Virginia, and that under the head of ordinary expenses of the state government West Virginia should be charged with interest, since it was the "largest, most important, regular and necessary" of the charges against the state. The claim that Virginia had no interest in the suit was held to be unwarranted, because she was the trustee for the holders of the deferred certificates, and because the refunding acts, since they did not force the exchange of the old certificates for the new, had not affected the state's former obligation to satisfy the certificate holders under the act of 1871, to whom she was still liable.

Adopting a composite basis of calculation, combining territorial area, population with slaves, and assessed values of land,

[1] This 74 millions, figured at the close of 1910, comprised the interest payments already made, the payments retiring portions of the principal, and the amount outstanding and unpaid, about 25 millions, on which Virginia regularly pays interest. Debt Suit, p. 384.

[2] The legislature of West Virginia resolved in 1905 "that the state of West Virginia does not owe any part of the so-called Virginia debt, and that this legislature is opposed to any negotiations whatsoever on the subject." Joint Resolution no. 3, adopted January 20, 1905.

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Virginia's counsel estimated that West Virginia should assume $9,652,768.83 of the original debt.[1] In addition, she should pay interest from January 1, 1861, until the final discharge of the obligation.

In West Virginia's answer the history of the case was reviewed in justification of the state's separation from Virginia and of its delay in payment of the debt; the points previously urged in the contention over jurisdiction were repeated and new arguments were introduced. Virginia had no right, so the argument ran, to receive the payment of West Virginia's portion of the debt after she had by her refunding acts released herself from all liability beyond her own admitted share. Virginia was debarred also because she had no direct interest in the suit.[2] She could make no accounting as to the subject-matter of the controversy because her creditors had already agreed as to the amount which she should assume, and because the new state's liability, "if any exists," is direct to the creditors and not to Virginia. This is not a general debt, representing expenditures which give equal benefit to all parts of the state, but a local one covering internal improvements nine-tenths of which are confined to Virginia, and no rule of public law requires the apportionment of such a debt on the basis of taxable property. This case, moreover, is controlled by a special agreement, the Wheeling ordinance of August 20, 1861, which is a binding contract between the states. This ordinance, which must be applied as a whole, not merely in part, specifies a particular method of ascertaining the amount which West Virginia should pay. It does not assume any part of the debt as such, but adopts a method of calculation which takes into view the equalization of past inequalities as well as the assumption of future liabilities. Granted, however, that the Wheeling ordinance should be set aside, then the effect would be to place the ascertainment of the debt in the hands of the legislature of West Virginia according to the provision of the new state's constitu-

[1] It is well to notice in this connection that, in pleading before the Supreme Court, Virginia does not urge the two-thirds division as the proper apportionment of the debt, though in her own laws the finality of this division is constantly assumed.

[2] New Hampshire *v.* Louisiana, 108 U. S. 76.

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tion. As to paying interest from January 1, 1861, there can be no such obligation resting on West Virginia, since the only agreement at the time was that West Virginia should pay the "accruing interest," to be dated from the transfer of the debt. This, in brief, was the substance of West Virginia's case, though various minor objections of a technical sort were advanced, as, for instance, that Virginia's demand was "multifarious," and that the suit, having been neglected for so long a period, was now debarred by laches.

The Supreme Court, adopting more the tone of a mediator than a judge, based its opinion on the high grounds of general justice, and treated the subject in a broad and untechnical way.[1] The provision in the constitution of the would-be state, the consenting act of the "restored" Virginia legislature, and the admission statute passed by Congress were held by the court to have created a contract between the two states calling for the payment by West Virginia of a just and equitable proportion of the debt. This contract was not affected by the Wheeling ordinance, inasmuch as none of these three acts mention the ordinance, and since an application of the ordinance would defeat the broad purpose of securing an "equitable" settlement. If any doubt exists on this point, the circumstances at the time of separation were such that Virginia should have the benefit of the doubt. Regarding the suggestion of dividing the liability minutely according to territory, in accordance with the location of the improvements, the court declared that the debt was general, designed for the ultimate good of the whole state, that many of the improvements in Virginia were intended for ultimate extension westward, and on this ground it refused to lose itself in futile detail in an attempt to localize the burden for each transaction which the debt represented. The claim that West Virginia's constitution had made her legislature the sole agency for settling the debt was overruled, and the court then

[1] "The case is to be considered in the untechnical spirit proper for dealing with a quasi-international controversy, remembering that there is no municipal code governing the matter, and that this court may be called on to adjust differences that cannot be dealt with by Congress or disposed of by the legislature of either state alone." 220 U. S. 1, p. 27.

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proceeded to the consideration of acts subsequent to the formation of the contract. The objection that because of her funding acts Virginia had no interest in the suit, having discharged herself of all liability to the deferred creditors, was waved aside as a mere technical argument. West Virginia's liability was declared to be a "deep-seated equity," not discharged by changes in the form of the debt, and the suit was held to be of deep concern to Virginia's honor and credit in spite of the fact that she would turn over the proceeds.[1]

In figuring the proportion the court made scant use of the master's voluminous findings, and disregarded the Wheeling ordinance. The master's estimate of the value of real and personal property in the two states in June, 1863, exclusive of slaves,[2] was taken as an equitable basis of division, and the total principal to be apportioned was declared to be $30,563,861.56, thus deducting a sum of $3,333,212.26 which Virginia had virtually extinguished by a composition with her creditors. Placing Virginia's share of this reduced total at 76.5 per cent and West Virginia's at 23.5 per cent, the amount of principal assigned to West Virginia was $7,182,507.46.[3]

The decision in this form was not a final decree. One point in particular was left open, namely, the difficult question of West Virginia's liability to pay interest.[4] The court recom-

[1] Compare United States *v.* Beebe, 127 U. S. 338, 342; United States *v.* Nashville, Chattanooga and St. Louis Ry. Co., 118 U. S. 120, 125, 126.

[2] It was to Virginia's advantage that slaves should be left out of the calculation in determining the total property values as a basis for apportioning the debt, inasmuch as slave property was of much less importance in West Virginia than in Virginia.

[3] "Virginia with the consent of her creditors has cut down her liability to not more than two-thirds of the debt, whereas at the ratio shown by the figures her share, subject to mathematical correction, is about .7651. If our figures are correct, the difference between Virginia's share, say $25,931,261.47, and the amount that the creditors were content to accept from her, say $22,598,049.21, is $3,333,212.26; subtracting the last sum from the debt leaves $30,563.861.56 as the sum to be apportioned. Taking .235 as representing the proportion of West Virginia we have $7,182,507.46 as her share of the principal debt." 220 U. S. p. 35.

[4] Though not involving any decision regarding interest, the opinion of March, 1911, hinted that Virginia's claim for interest dating from January 1, 1861, was extreme. "It would be a severe result," said Justice Holmes in delivering the opinion, "to capitalize charges for half a century—such a thing hardly could happen in a private case analogous to this. Statutes of limitation, if nothing else, would interpose a bar." 220 U. S. p. 36.

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mended that a conference between the states be held for the purpose of making final adjustments, and suggested that the case, being one between "great states," called for forbearance on both sides. It was understood that if the states should be unable to arrive at a friendly settlement, the Supreme Court would impose a final decree based upon a master's calculation. Efforts were made by the Virginia commission to secure such a compromise, but West Virginia delayed two years before taking action looking towards adjustment, pleading meanwhile that the legislature alone could act, and that in the special session of May, 1911, called for another purpose, the debt could not legally be considered.[1]

On February 21, 1913, at its regular session the West Virginia legislature tardily created a commission of eleven members empowered to "negotiate . . . for a settlement of West Virginia's proportion of the debt of the original commonwealth," requiring, however, that the commission should determine nothing finally, but should report its action to the governor who should then convene the legislature for the "consideration" of the question. This commission was organized in June, 1913, and a joint session with the Virginia commission was held at Washington July 25–26. As neither commission had any terms to submit in the form of a definite proposition, the session adjourned without result. A long delay again followed, and the West Virginia commission proceeded to the slow process of "preparing a proposition," probably intending after careful and deliberate study of the subject to submit the offer of a lump sum for full settlement. Virginia twice petitioned the Supreme Court to proceed to a final hearing of all points left open in March, 1911, but the court, satisfied of the bona-fide intention of West Virginia to make an adjustment, denied both motions.[2]

On March 4, 1914, the commissions from the two states again met in Washington, and the negotiations hinged upon a "proposition" offered by West Virginia. The men from the

[1] Proceedings in the Virginia Debt Case, printed by order of A. A. Lilly, attorney-general of West Virginia. (Charleston, W. Va., 1913.)

[2] 222 U. S. 17 (October, 1911); 231 U. S. 89 (November, 1913).

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new state claimed the "discovery" of an extensive series of credits and assets which would materially reduce the amount of their obligation. It is impossible here to enumerate these items, but they consisted mainly of cash on hand in the Virginia treasury in various funds, railroad and bank stocks sold by Virginia without West Virginia's consent though they had been acquired by funds common to both states, interest and dividends on investments etc. The valuation of these securities as of January 1, 1861, was estimated at $20,810,357.98, and West Virginia's net share of these assets (.235 minus certain minor reductions) was figured at $4,855,312.18. After subtracting this amount from West Virginia's share as fixed by the Supreme Court ($7,182,507.46), the commission announced that the balance, $2,327,195.28, would be the proper sum to be paid by the new state as a final satisfaction. In case Virginia should accept, the commission offered to recommend a called meeting of the legislature to vote this sum. The offer was rejected by the Virginia commission.[1]

In the following month, April, 1914, the case was reopened before the Supreme Court on a motion of West Virginia to "file a supplemental answer." West Virginia's case centered on these "newly discovered" credits. In rejoinder Virginia's counsel urged that after forty years of controversy and eight years of litigation before the Supreme Court, after all the documents and records had been exhaustively ransacked and elaborate findings presented by the special master, and after the Supreme Court in a "final" hearing of the case had fixed West Virginia's share of the principal at seven millions, it was no longer in order for the defendant state to present a totally new line of defense which was open to her from the first, and thus to prolong the litigation.[2]

Chief Justice White, in delivering the opinion of the court of June 8, interpreted the decision of 1911 as intended to leave open merely the question of interest, and any changes

[1] Statement of Negotiations between the Debt Commissions of the Two States (printed by order of W. Va. Com., March, 1914).

[2] Brief for Complainant, April 13, 1914 (Appeals Press, Richmond).

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that might possibly be necessitated through clerical error.[1] It was intimated that most of the items in the supplemental answer had been contained in the master's report, and that all the credits so presented were "known or could have been known by the use of ordinary diligence by those representing West Virginia." The court granted the defendant's motion to file the supplemental answer, even though such permission would not be allowed to a private litigant, on the ground that the intention throughout had been to handle the case on the broadest lines of justice, and to leave no "room for the slightest inference that the more restricted rules applicable to individuals [had] been applied to a great public controversy, or that anything but the largest justice after the amplest opportunity to be heard [had] in any degree entered into the disposition of the case." A special master was appointed to consider the answer with Virginia's traversing arguments, and to report his findings in the following October.

What may be regarded as the concluding stage in this litigation was at last reached on June 14, 1915, when Mr. Justice Hughes announced the final decree of the Supreme Court touching upon all the points still left open. It is impossible in the limited space to do more than briefly to suggest the effect of this important decision. An extensive and essentially new investigation had been completed by the master, and the court considered his findings together with the exceptions thereto which were urged by Virginia, the bondholding creditors and West Virginia. The various classes of credits claimed in West Virginia's supplemental answer were allowed on the ground that they consisted of moneys and securities specifically dedicated to the payment of the debt, and that it would be inequitable to charge the new state with her proportion of the debt and refuse to recognize her share of the assets pledged as security for its discharge. Using, in the main, the master's valuation of these assets as of January 1, 1861, the court found the total amount of the credits to be $14,929,161.44. West Virginia was credited with 23.5 per cent of this amount, but at the same time

[1] 234 U. S. 117.

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charged with $541,467.76 received, in money and securities, from the "restored government" of Virginia. This would give West Virginia a credit of $2,966,885.18, which, deducted from the $7,182,507.46 of the 1911 decision, would leave as her equitable proportion of the principal debt the sum of $4,215,622.28.

So much of the decision was favorable to West Virginia. On the vital subject of interest, however, Virginia's main contention was sustained. The court declared in this connection:

> As it was plainly not the intention either that the bondholders should go without interest as to the proportion assumed by West Virginia, or that there should be left with Virginia the entire burden of meeting the interest on the outstanding bonds while the principal was apportioned, it must follow that the assumption of an equitable share by West Virginia related to the liability for both principal and interest. We cannot read the contract otherwise. Nor do we think that in the construction of the provision of the constitution of West Virginia (Art. viii, sec. 8), which defines her engagement, the second clause can be ignored. After stating that an "equitable proportion" of the public debt shall be assumed by West Virginia, it is provided that "the legislature shall ascertain the same as soon as may be practicable, and provide for the liquidation thereof, by a sinking fund sufficient to pay the accruing interest, and redeem the principal within thirty-four years." If there could otherwise be any doubt as to what was embraced in the contract of assumption, this provision would dissipate it.

The question as to what rate of interest should be charged was a problem complicated by the fact that Virginia had not paid upon her share the rate reserved in her bonds, that bonds had been issued for back interest, that interest upon interest had been paid, and that from time to time arrangements with the creditors had been made by the old state for varying rates of interest. The court came to the conclusion that the equitable rights of both states would be substantially respected by figuring the interest from January 1, 1861, to July 1, 1891, at four per cent, and from July 1, 1891, to July 1, 1915, at three per cent. The interest thus amounted to $8,178,307.22, and West Virginia's total obligation, principal and interest, was set at

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$12,393,929.50. Furthermore, upon this amount awarded, interest at five per cent was to be charged from the date of the entry of the decree until payment.[1]

On the whole this decision will be regarded as a victory for Virginia, yet it contains the essential features of a compromise. Whether West Virginia could have made better terms by negotiation at any time since 1911 is doubtful, though it seems clear that a peaceable adjustment prior to that time would have been to her advantage. Inasmuch as the matter has now been disposed of by a final decree of the highest tribunal, fixing a definite award, it would seem that the only remaining step in the proceedings is for West Virginia's legislature to vote the stipulated amount, issuing bonds as a convenient way of financing the operation. Yet as these lines are being written there are rumors that there will still be some obstruction placed in the way of the bondholders' recovery of the amount due, and that resort to some form of compulsion will be necessary.[2]

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[1] 35 Sup. Ct. Rep. 795. In the published decision the date July 1, 1915, was used for convenience, but in the actual award the interest was to be calculated to the date of entry of the decree.

[2] For a possible method of executing a financial judgment of the Supreme Court against a state, see South Dakota *v.* North Carolina, 192 U. S. 286.

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COMPETITION AND CAPITAL

THE country has become largely persuaded that the railroad industry is harmed by competition, and that for it a system of monopoly, controlled by the government, will yield on the whole the best results. The extremely destructive nature of competition among railroads is due, fundamentally, to the large proportion which the vested capital[1] bears to the annual earnings.[2] The abuses to the shippers, such as rebates and special advantages, also result almost inevitably from competition among railroads. The large proportion of fixed capital makes the general costs very high in comparison to the particular costs. Whenever the railroad plant is underutilized, there is an advantage in securing new business, which could not otherwise be secured, at any price sufficient to pay anything above the particular costs. This practice results in disadvantages to both shippers and railroads. For these reasons, the attitude of the government has been largely influenced by the recognition that the monopoly principle in respect to railroads is of greater social benefit than the competitive principle.[3] The thesis to be maintained in this paper is that certain manufacturing industries are so predominantly "capitalistic" in their nature that the same general line of reasoning is as applicable to them as it is to the railroads.[4]

It is first necessary to recall certain fundamental principles. From the social point of view, the object of industry is the cre-

[1] Capital is used in the sense of the future incomes vested in an article, and which it is estimated will accrue to the owner at some future period. Fetter's Principles of Economics, p. 122.

[2] *Vide infra.*

[3] This is true only in regard to the Interstate Commerce Commission. It is not true of the suits brought against railroads under the Sherman Act, for the decisions in these cases are based upon anticipations of expected benefits from the reëstablishment of competition between railroads.

[4] Grateful acknowledgment is made that the germ of this idea is due to Professor Seager.

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ation of wealth in the most efficient and economical manner. Accordingly, the technique of each industry should be so arranged that the net creation of wealth shall be as great as possible. Regarded from this viewpoint, neither the system of competition nor that of monopoly is of importance as an end in itself, but only as a means by which wealth may be created in the most efficient manner. Indeed, in their essence, the two systems are not opposed to each other, as is commonly believed, but are rather complementary. For the social ideal of the competitive régime is the survival of the competitor who is able to sell at the lowest price, which is monopoly; and the social ideal of monopoly is that prices should at all times be governed by fear of the potential rival, which is competition.[1] In the modern industrial world, this happy condition is prevented through the great amount of capital necessary to establish certain industries, so that potential competition has very little, if any, effect on the prices of the monopolist. From this fact arises the whole of the so-called trust problem. The preponderance of fixed capital necessary in certain industries is the kernel of the question.

The purpose of the competitive system is constantly to displace more expensive methods by cheaper ones. It thus exerts a disturbing influence, especially in the highly "capitalized" industries, because it tends to destroy the future incomes vested in the industries through the introduction of the better processes. New sources of income are created; but the old ones are destroyed. The social gain consists in the new capital (i. e., the capitalized value of the new incomes); the social loss lies in the capital which has been destroyed. Under the competitive system these are not directly compared, since the loss is borne by one set of persons and the gain is made by others. When phonographs were invented, the large amount of capital invested in music boxes was suddenly rendered worthless. Had the owners of the new phonograph patents also owned the music-box factories, they would have been more chary about

[1] *Cf.* R. Liefmann, "Monopoly or Competition as the Basis of a Government Trust Policy," in the *Quarterly Journal of Economics*, February, 1915, pp. 308–325.

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destroying the capital already invested. No social balance wheel exists by which the gains and losses may be adjudged from the standpoint of society as a whole. A monopoly, on the other hand, must compare these items, for it suffers the loss as well as secures the gain; hence it is slow to adopt a new invention. It waits until the old capital is largely worn out before it introduces the new method. The gain must be so great that it will be a recompense not only for the new capital invested, but also for the incomes which would have been derived from the old capital, but which have been destroyed. Now the interest of society as a whole is similar to that of a monopoly; it suffers the losses as well as secures the gains. Yet ordinarily no effort is made to compare these as they affect society. The greater the proportion of fixed capital, the more destructive is a change. The corner grocer, who has little fixed capital, if defeated in the competitive struggle can easily sell his stock at comparatively little loss. His goods may be sold for bargain prices, his store fitted out for some other purpose, and he himself can find another job. But the loss when a highly specialized modern factory goes to the wall because a cheaper process has been invented is the total value of its capital, namely, the present discounted value of the large, prospective, future incomes which it had represented. It might be argued that even in this event there would be a social gain, since the public would get the article more cheaply than formerly. This view is due to a too narrow conception of the forces involved. It is true that there is a certain gain, represented by the difference between the two methods of manufacturing; but there is a loss due to what the same capital would have earned if it had been used in some other manner which did not involve the destruction of existing capital. The loss is hidden, but none the less real.[1]

[1] A defence of the competitive system might be built up on the argument that, in spite of such individual losses, the general welfare is still promoted by encouraging initiative in every way, especially since one invention often leads to others. The scheme proposed in this paper would, however, only discourage invention in a few industries; and in these industries inventions are pretty well regulated by the semi-monopoly power of the large corporations and banks. It seems as if the government

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The railroads furnish an example of the possible anti-social effect of a change, which would be individually profitable. Should an entire new railroad system be built, with tracks six feet apart, which exactly duplicated the present lines whose tracks are four feet, eight and a half inches apart, the saving in costs on account of the more powerful engines and longer trains would probably be such as to render valueless the present lines. Freight rates might perhaps profitably be cut in two by the new system, so that no one would ever ship over the old lines. The public would unquestionably gain by the lower freight rates, but in order to make the change profitable in a national sense the gain must be great enough to replace all the dividends and interest on the stocks and bonds of the old line. It is just this comparison that we do not make. We permit anyone to do anything if it is profitable to him individually, no matter what the effect on the rest of the country. The only fact that prevents this occurrence from taking place is that the financial institutions, with enough capital to put through such a scheme, have also sufficient monopoly power to prevent the experiment from being made. Since so large a part of their loans are secured by railroad stocks and bonds, they naturally are interested in maintaining the value of the present system. But this power may not always be used so happily, since the banks may be equally interested in preventing changes of all sorts, no matter what their effect on the country at large.

An extreme example will perhaps illustrate how the principle operates, although it will be recognized that only rarely does it work so drastically or in such a clean-cut manner. In an industry in which $100,000,000 capital is invested, which has been yielding to its owners an annual income of $5,000,000 (5 per cent being the ordinary rate of interest), a superior, new machine is invented, of such a revolutionary character that it reduces costs by $2,000,000 annually and competes with all existing machinery. Through the reduced cost, prices may be

could artificially foster invention, at least as much as it is encouraged under present conditions. We have not today a complete competitive system as a matter of fact; and monopolies, in so far as they exist, are not adequately controlled by any power

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sufficiently lowered to make it unprofitable to continue operating the old machines. It is found that $80,000,000, invested in the new machines, will be sufficient to supply the demand for these goods. There is clearly a social gain through the saving of $2,000,000 annually; but there is a loss in the destruction of the incomes formerly enjoyed. The social inventory, $180,000,000 capital being involved in each case, would be:

Original Condition

CAPITAL	INCOME
From 1st, $100,000,000	$5,000,000
From 2nd, 80,000,000	potential

Under Competitive Conditions

From 1st, $100,000,000	nothing (the $5,000,000 income being destroyed)
From 2nd, 80,000,000	$4,000,000 (to owners)
	2,000,000 (to public in lower prices)
	Total $6,000,000

Under conditions of maximum advantage, when the new capital is invested in other enterprises which involve no destruction of existing capital:

From 1st, $100,000,000	$5,000,000
From 2nd, 80,000,000	4,000,000
	Total $9,000,000

Now had the $80,000,000 of new capital been used in some entirely new industry, where it yielded to society goods representing $4,000,000 worth of income without destroying any existing income, clearly society would have been better off. And yet, if the inventor could gain for himself any part of the $2,000,000 which his new process saves in the cost, and thus get a return above five per cent on his new investment, it would be profitable for him to do so, regardless of the effect upon others or national benefit. Only rarely does this principle operate in so drastic a manner. Generally there is some chance to use up, at least partially, the old machines.

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With this contrast clearly in mind, we may now turn to an examination of the relation between capital and income in our various industries. The total capital invested in the railroads[1] in 1910 was $14,387,816,000, and the total gross income was $2,812,142,000, or 19.54 per cent of the capital.[2] The capital invested in manufactures in 1910 was $18,428,270,000, and the total value added by manufacturing[3] was $8,529,261,000, or 46.28 per cent of the capital. While the proportion in manufacturing as a whole which the annual added value bears to the capital is thus very much greater than in the case of the railroads, showing a much smaller preponderance of fixed capital, a close parallel is disclosed through an analysis of individual manufacturing industries.

The tables on pages 584 and 585 show the two extremes of relationship.

[1] All the amounts of capital are par value. They are thus only approximately accurate. The actual investment amounts are unknown. It is reasonable to expect, however, that variates from the mean will about counterbalance each other. An exception will be found in the automobile industry, which for special reasons is disproportionately overcapitalized.

[2] Compilation in Matter of Application of Eastern Railways for Increase of Freights, 1913. I am indebted to Mr. A. S. Field, of the Bureau of Railway Statistics, for help in determining the comparability of these figures. In this table there is an item entitled, "Materials, supplies, etc.," a permissible interpretation of which might lead to finding a partial similarity with the item, "cost of materials," in the manufacturing industries. Accepting this interpretation, it would be necessary to subtract this item of $738,154,000 from the gross income, leaving $2,073,058,000 as the value added by railroads, which is 14.41 per cent of the capital. This is the extreme low relationship of the two figures and its acceptance does not materially affect the argument. The reason that this figure is not accepted in the text is because the item in the case of railroads is an integral part of the cost of transportation, whereas, in the case of manufactures, the cost of materials includes those articles which are passed through a process of manufacturing, and are, themselves, an item in the final value.

[3] 13th Census of the United States, volume 8, pp. 507 ff.

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TABLE I

NAME OF INDUSTRY	CAPITAL (000 OMITTED)	VALUE ADDED BY MANUFACTURING (000 OMITTED)	PER CENT
1. Lead: bar, pipe and sheet	$20,587	$1,733	8.42
2. Moving pictures	19,428	2,014	10.31
3. Smelting: refining lead	132,310	15,443	11.67
4. Gas: illuminating and heating	915,537	114,380	12.49
5. Malt	60,286	7,788	12.92
6. Iron and steel blast furnaces	487,581	70,791	14.52
7. Beet sugar	129,629	20,857	16.09
8. Cement	187,398	33,861	18.09
9. Kaolin and ground earths	13,226	2,639	19.95
10. Sugar and molasses, not including beet sugar	153,167	31,666	20.67
11. Petroleum, refining	181,916	37,725	20.75
12. Coke	152,321	31,672	20.79
13. Salt	29,012	6,125	21.11
14. Rice, cleaning, polishing	13,347	2,870	21.50
15. Wood distillation, not including turpentine and rosin	13,017	3,861	21.98
16. Liquors: vinous	27,908	6,495	23.27
17. Leather: tanned, curried and finished	332,727	79,595	23.92
18. Acids: sulphuric, nitric and mixed	18,726	4,498	24.02
19. Paving materials	11,410	2,751	24.11
20. Grind stones	4,939	1,220	24.70
21. Paper and wood pulp	409,348	102,215	25.00
Total	$3,313,820	$580,189	17.51

These relations between railroads and the industries in the two tables are shown more clearly in the following diagrams:

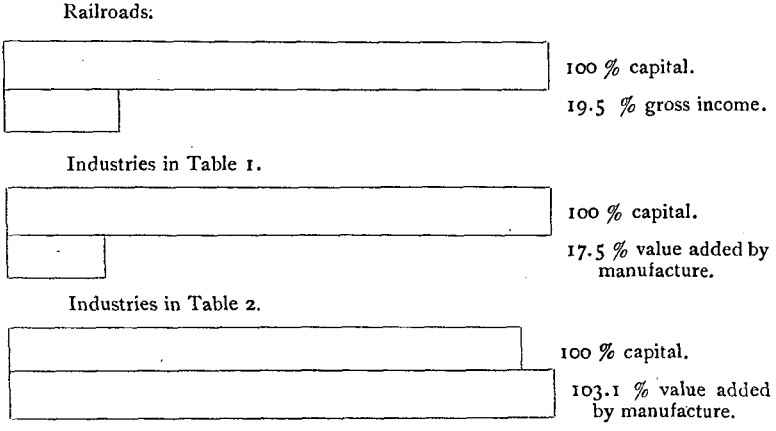

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TABLE II

NAME OF INDUSTRY	CAPITAL (000 OMITTED)	VALUE ADDED BY MANUFACTURING (000 OMITTED)	PER CENT
1. Clothing, men's buttonholes	$225	$676	300.44
2. Clothing, sponged, refinished	229	1,459	246.26
3. Liquors, distilled	72,450	168,722	232.87
4. Turpentine and rosin	12,401	20,384	164.38
5. Electro-plating	2,324	3,305	142.21
6. Hats and caps, other than felt, straw and wool	5,275	6,999	132.66
7. Engraving and dies inking	1,449	1,899	131.05
8. Statuary and art goods	2,221	2,762	124.35
9. Carpets, rag	1,546	1,879	121.54
10. Stereotyping and electrotyping	3,826	4,619	120.72
11. Millinery and lace goods	35,705	40,854	114.42
12. Hair work	4,716	5,135	108.88
13. Models and patterns, not including paper patterns	5,576	5,992	107.42
14. Hand stamps, stencils and brands	2,439	2,546	104.39
15. Jewelry and instrument cases	1,841	1,895	102.93
16. Blacking, cleansing and polishing preparations	7,557	7,717	102.11
17. Clothing: men's, including shirts	275,320	270,562	98.27
18. Tobacco manufactures	245,660	239,504	97.49
19. Glass cutting, staining and ornamenting	10,296	9,855	95.71
20. Furs, dressed	1,672	1,580	94.79
21. Gold and silver leaf and foil	1,184	1,112	93.92
22. Lasts	3,061	2,835	92.61
23. Patent medicines, compounds and druggists' preparations	99,942	91,566	91.62
24. Signs and advertising novelties	9,647	8,837	91.60
25. Printing and publishing	588,346	536,101	91.11
Total	$1,395,308	$1,438,800	103.11

The total capital invested in the 21 industries of Table 1 is $3,313,820,000 and the total value added by these industries is $580,189,000, or 17.51 per cent of the capital. The same figures for the 25 industries of Table 2 are, respectively, $1,395,308,000 and $1,438,800,000, the latter being 103.11 per cent of the former. Between these two groups lies the largest number of industries, which it is difficult to classify accurately with either. The difference between the two extremes, however, is clear. A new invention which should throw out of existence all the vested capital in one of the industries of Table 1, would destroy 5.7 years' income, whereas the same occurrence in an industry of Table 2 would destroy less than the income of a

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single year. Likewise the amount of insurance to be set aside against risk of this sort, which must be borne by the public in the form of higher prices, must be proportionately larger in the industries of Table 1. Thus the industries of Table 1 are dependent on stable conditions in order to perform their best social service. Every change is accompanied by a heavy loss. On the contrary the industries of Table 2 can shift with comparative ease from place to place and from method to method. They approach the fluidity of capital on which the reasoning of the older economics is based.

In this respect, then, the industries of Table I resemble far more closely the railroads than they do the industries of Table II. In fact, should the railroads be included among these industries they would rank only as ninth in the list of twenty-two.

That these differences in the technique of different industries are of vital importance is further shown by the following table:

TABLE III [1]

NAME OF INDUSTRY	PER CENT OF TOTAL VALUE ADDED BY MANUFACTURE, WHICH IS ADDED BY ESTABLISHMENTS OF OVER $1,000,000 PRODUCT PER ANNUM
1. Sugar refining, not including beet sugar	100.0
2. Smelting and refining, lead	99.0
3. Smelting and refining, copper	98.1
4. Phonographs and graphophones	94.8
5. Boots and shoes, rubber	93.8
6. Pencils, lead	93.7
7. Iron and steel, steel works and rolling mills	88.6
8. Tin plate and terneplate	87.7
9. Iron and steel, blast furnaces	84.6
10. Glucose and starch	84.6
11. Petroleum, refining	82.9
12. Slaughtering and meat packing	82.4
13. Wire	78.2
14. Smelting and refining, zinc	76.9
15. Rubber goods, not elsewhere specified	76.8
16. Iron and steel pipe, wrought	76.8
17. Cars, steam railroad, not including operations of railroad companies	75.6

A considerable degree of similarity will be noted between

[1] 13th Census of the United States, vol. viii, pp. 196–199.

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these industries and those comprising Table 1. As opposed to these industries of large concentration, there are 78 industries out of the 248 reported which have not a single establishment of over $1,000,000 annual product.

An examination of manufacturing thus shows striking variations in regard to the importance of fixed capital, and the advantage of large-sized establishments. The advocacy of free competition by the early economists was premised on the free movement of labor and capital, which even at that time was only partially realized. Today, in certain industries, such free movement is wholly absent. The shifting of fixed capital is out of the question. Under competitive conditions it is even impossible to use old capital until it is worn out. Only with some degree of monopoly power—as, for instance, in the case of the American Telephone and Telegraph Company, which is able to put off the introduction of new instruments and devices until the maximum benefit from the old ones has been derived—is such a thing possible. Business men are forced to adopt questionable methods for the discouragement of radically new inventions, when these interfere with the value of vested capital. Refusal of loans by the banks is one of the most effective ways of doing this. The motive power governing their actions must be in terms of individual advantage, no matter what the national advantage demands. On the other hand their methods, though often extra-legal or illegal, may make for national efficiency. It is a matter of chance whether they promote or retard social advance, since the country is making no intelligent effort to control the situation. The rigors of the competitive system, in industries which demand stable conditions, necessitate the formation of more or less formal pools, trusts or understandings, which approach monopolistic combinations. The greater the fixed capital in the form of highly-specialized machinery, the more necessary is it to control the conditions of the industry. Because we have made laws condemning monopoly in every form of industry, the development of monopoly has been sporadic and has had no relation to the interests of the country at large.

If the point of view taken in this paper be a correct one,

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then there are differences in the facts of manufacturing industries which call for differences of treatment, if our object be to develop them to their fullest capacity and to gain from them the greatest possible benefit. Instead of regarding the railroads as different in their very nature from all manufactures, in that they alone develop their greatest usefulness under a system of regulated monopoly, we should recognize that some manufactures have this characteristic almost as highly developed and that the two merge by gradual gradations into each other. The determination of the line which separates industries which on the whole will operate most beneficially as regulated monopolies, from those which will develop most successfully under the competitive system, is one of great practical difficulty, requiring further information and careful experimentation. But surely the line should be drawn with a view to national interests, instead of individual interests as it is today. The failure to recognize differences where they exist (at the extremes, at least, it seems that this must be clear) is to fly in the face of common sense.

Acceptance of the above principle would raise grave doubts as to whether the public was benefited by the destruction of the Standard Oil Trust and the Tobacco Trust, due as it was in each instance to legal rather than to economic reasoning. The relation of capital to annual added value in the oil business is as five to one; in the tobacco business they are about equal. The two industries are fundamentally different and should be treated differently. The destruction of capital through competition in the tobacco industry is negligible; in the oil business the risk is tremendous and must be insured against by means of higher prices, which the public must pay.

The same problem is raised in the pending suit against the International Harvester Corporation. In the manufacture of agricultural implements the annual added value is 33.6 per cent of the vested capital, the figures being $86,022,000 and $256,281,000, respectively.[1] In view of the facts, the real question is whether this industry ministers best to national efficiency

[1] 13th Census, vol. viii, p. 507.

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under a monopolistic or competitive régime. Yet this aspect of the suit has not been touched upon in the recent brief of the Attorney-General, and we may well inquire whether the decision of the Supreme Court will be on a basis of some technical rule of law or on one of national welfare. Indeed it must be settled according to the general principles of law, for we have no machinery to regulate the industry effectively, even if we should decide that it would be more beneficial under the monopolistic principle. In the suit against the United States Steel Corporation the problem is complicated by the fact that in some branches of the industry vested capital is more important than in others. For the purposes of this article it is sufficient to point out the basis on which the answer should be given, rather than the answer itself.

It is not to be understood that in the industries in which competition is accepted as the guiding principle it is meant to imply unregulated competition to the point of anarchy. Competition has always been carried on under certain regulations, the only practical question being whether the regulations are in accord with conditions as they exist, or whether they are the inherited laws of an age which has gone by. There was regulation even in the most flourishing days of the *laissez-faire* period; but it bore no relation to the changed aspects of industry which had developed since the laws were framed. This condition is almost as true of the industry of today as it was of that of half a century ago.[1]

The natural error of the government lies in its identification of competition and maximum production. The competitive struggle breeds monopoly, not more competition. And the entrenched position so gained is as great a social detriment as the stagnation due to government ownership would be. The position of a new invention in photography, for example, is no more advantageous under the former than the latter. Practically it cannot be employed independently of the Eastman Kodak Company (unless it were of such an extraordinary nature that

[1] *Cf.* W. H. Stevens's "Unfair Competition," POLITICAL SCIENCE QUARTERLY, vol. xxix, pp. 282–306, 460–490.

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it could put the present company out of business) and hence that company can purchase it at its own price—to be utilized or forgotten as may be most profitable. The position of the National Cash Register Company, and the General Electric Company in certain fields, is similar. That is, in these fields, new inventions are not today encouraged by a natural process. They might be fostered artificially by a generous government stipend quite as successfully. Moreover, laws could be made penalizing the non-use of inventions. The interplay of the forces of industry is extremely complex and cannot be successfully solved by the blanket application of simple principles.

Our laws do not correspond to the facts of industry. They bow before the fetish of competition apparently as an end in itself. Suggestions of a modification of this attitude in the latest decisions of the Supreme Court were, in part, nullified in the recently enacted Clayton Act. If the argument presented in this paper is sound, then no single law can be framed which meets the problem presented by the complex of industry in a socially beneficial manner, and we must look to the further discrimination of the courts and the trade commission to adopt a policy which shall recognize conditions as they exist, and determine the proper differentiation which alone can bring order out of the present chaos.

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THE FIRST YEAR OF THE NEW BANKING SYSTEM

MEMBERS of the Federal Reserve Board took the oath of office on August 10, 1914. On November 2 the first instalment of capital stock in the new federal reserve banks was made payable. The banks themselves were formally opened on November 16. A year, roughly speaking, has thus elapsed since the actual inauguration of the new system in practice. This year has not, however, been a year of complete operation. Owing to the international financial problems which pressed for attention at the time the Board was appointed, it was necessary to spend many weeks in emergency work before thought could be directly given to the task of organizing the banking system. Even then the decision to open the banks without further loss of time in order to meet existing needs and to relieve the reserve situation meant that their engaging in business on the sixteenth of November must be nominal only, and that subsequent to that date a considerable period must elapse before even the most fundamental regulations governing their conduct could be established on a uniform footing. While, therefore, there has technically been about a year of experience with the new system as such, there has been considerably less than a year of actual operation of the banks. Some functions assigned to them by law have not yet been undertaken at all. The time, however, has been sufficient to indicate many things that may be expected of the new system, to show where certain of its principal problems will lie, and to suggest the nature of its further development in sundry directions both in law and in business practice.

I

Both logically and chronologically, a review of experience in opening the federal reserve system deals first with organization. First of all, predictions made by opponents of the federal reserve system with reference to the probable character of the personnel of the new institutions have been without foun-

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dation. The Federal Reserve Board itself has never been governed by partisan considerations in its choice of employees. The personnel of the several banks, so far as its selection lay within the power of the Board, has also been chosen upon its merits. In the business transactions of the banks there has been no opportunity for the exhibition of party preference; and, so far as can now be seen, no such opportunity is likely to be afforded. The banks themselves deal primarily with their stockholding corporations, which are traditionally "soulless" and traditionally free from party preference. The only question which has actuated them in the granting of loans is the soundness of the paper presented; and he would indeed be an acute critic who could find at any of the federal reserve banks a sound basis for complaint of any favoritism or nepotism beyond that which exists in any humanly organized institution.

The question how satisfactorily the new type of banking organization has operated is more difficult. It is not enough to be clean or free of partisanship; a business organization must be efficient as well. In essence, the Federal Reserve Act seeks to eliminate red-tape administration by placing within the hands of the several banks the actual work of practical banking, leaving to the Federal Reserve Board itself only those general duties and that exercise of supervisory authority which can be maintained with a small staff of trustworthy employees. The Federal Reserve Board from the beginning of its existence perceived the possibilities of this arrangement, and has from the outset sedulously striven to abstain from interference with routine business at the several banks, with the selection of personnel, or with any matter which could properly be placed in the hands of the banks themselves. This policy has resulted in the choice by the several banks of their own staffs, wholly free of interference on the part of the Federal Reserve Board, although the Board has, in the case of the higher officers, freely given its advice when requested. The Board has not only, as already noted, chosen its own staff without reference to political considerations, but has made the choice under a system of selection as rigid and careful as that employed by the Civil Service Commission. A number of employees who had been

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chosen by the Reserve Bank Organization Committee were transferred automatically to the staff of the Reserve Board; but in this transfer the Board merely accepted what it found. Its own selections have been made in the way already indicated. The Board, moreover, has largely reduced the size of the staff employed by the Organization Committee, and, as compared with other government bodies, its expenses, as will later be set forth, would unquestionably be considered very moderate. At the several banks efforts have in most cases been made to keep expenses to a reasonable level and not to employ supernumeraries.

From the larger standpoint, also, the general working of the organization has, in the main, been effective. Shortly after the banks were opened there was a period during which action upon the numerous questions presented to the Federal Reserve Board was not immediate, owing to the fact that many factors still had to be ascertained and much information collected concerning conditions in the several districts. Without due investigation, any ruling that might have been issued would have lacked uniformity and would probably have been subject to extensive change at a later date. The delays which then occurred, therefore, may be regarded as unavoidable, and they have for the most part been eliminated during recent months. In fact it is the testimony of many who are directly affected by the Board's work that it has succeeded in obtaining unexpectedly prompt action, and has avoided delay to a degree that has enabled the banks to act with at least reasonable speed upon the applications of their customers. As for the banks themselves, there was at first in the minds of many of their members the thought that they—like the Board—would be red-tape institutions, operated under such conditions that business men could hardly hope to get accommodation from them save in times of necessity and under conditions that would not make it worth while for them to attempt the maintenance of regular relations. This prediction, wherever it was made, has failed of verification. Not a few of the federal reserve banks have done exceptional educative work in explaining to their members what they must do to secure prompt and effective attention in their applications

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for rediscounts. All this has taken time; but it is today admitted that in many instances the service rendered by the reserve banks is as prompt and satisfactory as that rendered by the larger correspondent banks of the cities, and that there is no reason why a member bank possessed of discountable paper should not confidently count upon the accommodation that it desires, without undue delay and at a minimum of expense.

In the relations between the several banks and the Federal Reserve Board there has been at times, no doubt, some difference of opinion upon points involving current operations. These divergences have been of minor importance except as to the question to what extent the weekly discount rates may be considered under the direct control of the Federal Reserve Board. Whatever doubt has properly been entertained on this point has, however, been dissipated by the definite position assumed by the Board to the effect that discount rates can not become effective without its approval, and that the scope and purpose of the Act, as such, undoubtedly give it the right to make suggestions as to the general discount policy of the several banks. To get a more conclusive ruling than this it would be necessary to take the matter to the courts for the purpose of making a test case. Pending, therefore, the development of some larger issue of controversy than has exhibited itself in the past few months, it may be fairly said that the different members of the federal reserve system have worked together smoothly and without more than an occasional hitch. It may be added that this smoothness of operation may be expected to increase as time goes on, and the regulations laid down by the Federal Reserve Board are better understood and complied with.

II

Students of banking in its theoretical aspects, however, will be only secondarily concerned with the practical mechanics of the reserve system. They will naturally ask what has been done by the Federal Reserve Board toward the standardization of commercial paper and the improvement of lending conditions in the United States. This was one of the first problems to be

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attacked. In Circular No. 13, Series of 1914, regulations were laid down for the management of loans by member banks, which prescribed the conditions under which commercial paper could be accepted as a basis for advances. Circular No. 13 was, however, found to be unacceptable. It called for the making of elaborate financial statements, and it applied a more or less stereotyped method of judging the financial responsibility of applicant banks and of their borrowers. Experience has seemed to show that this circular was in advance of the time and that, before attempting so great a step forward, it would be necessary to pass through intermediate stages. This belief was the result not only of failure on the part of the small banks to take advantage of the opportunity for rediscount, but was also based upon the opinion of competent critics and students of the general situation. The consequence has been the issuance of Circular No. 3, Series of 1915, in which conditions of commercial credit, to be used as a basis for accommodation at federal reserve banks, have taken different shape, at least for the present. From a reading of this circular it will be seen that the Federal Reserve Board has, for loans below $5000, practically accepted the guarantee of the member bank, leaving it to such bank to determine through its own methods whether or not the paper offered to it is of such a nature as to insure conformity to the standard laid down in the Federal Reserve Act itself. Above $5000, the requirement of a suitable statement on the part of the borrower remains; but the Board has not as yet prescribed a form of such statement. Most of the reserve banks have, however, on their own responsibility, developed forms of statements which have had the tentative approval of the Board, and which constitute a decided advance over the practice prevailing in the past. The informal rulings of the Board which have been issued in the process of defining different kinds of commercial paper, and in settling various issues that have arisen from time to time between the reserve banks themselves as well as between them individually and their members, have laid a firm foundation for future work; and there is reason to believe that the next two years will see very decided progress toward the goal that has been held in view by those

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who wish to see the commercial paper of the country placed upon a safer and more uniform footing.

It is natural that more rapid progress than this should have been made in those fields of business which involved an innovation. The Federal Reserve Act provided for the acceptance of bills of exchange by member banks and for the discounting of their bills by federal reserve banks, thereby introducing a practice which had been impossible under the national banking system. The example thus set in the Federal Reserve Act has been copied by many states, and today several of them have already introduced similar provisions into their laws. Under circulars Nos. 11 and 18, Series of 1915, the Board has practically standardized these acceptances by providing their content, the character of security by which they must be accompanied and the nature and number of the endorsements required in connection with them. In other circulars there has been an attempt to describe and provide for different types of commercial paper with a view to encouraging the introduction of new business practices and the improvement of old ones. In the circular relating to trade acceptances (Circular No. 16, Series of 1915) the Board has pointed a way to the further development of the kind of two-name paper which is most widely used in Europe, and has endeavored to encourage the use of such double-name drafts by aiding in the establishment of specially favorable rates for them at federal reserve banks. Under the provisions of the Federal Reserve Act it is required that loans be made upon paper protected by warehouse receipts, and such provisions have been made by the Board in the circular relating to commodity paper (Circular No. 17, Series of 1915), where it is sought to meet the requirements of the section of the Act referred to. By way of rendering this circular and the provisions on which it is based really effective, it has been necessary to do a considerable amount of accompanying work designed to promote the adoption of uniform warehouse legislation, and the issue of warehouse receipts against staple products in satisfactory form. As yet the business public has shown but a limited disposition to conform to the practices laid down in the circular on trade acceptances, while the farm borrowers of the

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South and West have not had time to demand or compel the extensive revision of warehouse legislation on a standard and uniform basis. The acceptance business, despite the stimulus due to the change in the foreign trade position of the United States, has developed comparatively slowly, only a few banks, situated largely on the eastern seaboard, choosing to participate actively in its development. It may be said, therefore, that the federal reserve system has only begun the task of bringing about or facilitating:

(1) The furnishing of uniform and enlightening borrowers' statements based upon substantially identical accounting standards.

(2) The development of the older and European type of two-name commercial paper based upon the sale of goods, the same to take the place of single-named paper based on open accounts.

(3) The development of satisfactory warehouse systems and certificates designed to show the existence in properly protected form of staple products, shortly to enter into consumption, and, as such, suitable protection for bank loans.

A beginning has been made in three directions and in others which may be considered ramifications of them. Great interest in the efforts of the Board in the directions suggested has already been shown, not merely by bankers, but by organizations of business men and credit experts. The board has clearly afforded a center of leadership and influence for those who have long desired to see development in the directions indicated. It may be expected that when the first inertia has been overcome, the movement toward the standardization and unification of the various forms of commercial paper will be increasingly rapid; and that the efforts of the Board, backed by those of the twelve federal reserve banks, coupled with the knowledge on the part of the borrowers that lower rates can be secured by recasting their paper in the forms suggested, will do much toward accelerating and ultimately attaining the desired object.

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III

Perhaps no one feature of the Federal Reserve Act had received so much attention prior to the organization of the new banks as its provisions regarding the rate of discount. During the agitation for the Aldrich or Monetary Commission Bill, much was said of the supposed necessity of developing a uniform rate of discount applicable to the whole country. The Federal Reserve Act was framed upon the theory that such a uniform rate of discount was neither practical or desirable for a country possessed of so great an extent of territory as the United States, and containing within itself so many different industrial conditions and such widely varying demand for, and supply of, capital. Since the banks were opened there has been opportunity to test many of the theories which were propounded by those who discussed the discount question prior to November 16, 1914; and it is probable that there is today, as a result of the experience evolved in the operation of the new system, a better knowledge of this problem than has heretofore been available.

Briefly stated, the situation as to discount rates throughout the country has heretofore been as follows: A small number of large banks, most of them situated in New York, and some in other large cities, have made a practice of developing the discount business for banking customers. Themselves designated as "reserve agents," they have held the reserves of the other banks of the national system, and have attempted to develop their own resources upon central banking principles. How far they succeeded may be realized from the fact that one institution has had at times about six thousand country correspondents, national and state—that is to say, other banks holding business relations with it, and in most cases depositing a part of their reserves with it—while others have at times had nearly as many. Some competition has existed between these large banks, but "banking ethics" has prevented an undue development in such a direction. In consequence, rates of discount have been fixed practically upon the basis of what the traffic would bear and loans have been made practically upon a collateral system. On this basis, rates have varied widely, and, on the whole, have

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been high; at times, however, they have been very low, if conditions were such as to lead the city banks to seek to push out more funds into current use. The organization of the federal reserve system has changed the situation in two ways. It has offered to the banks of the country the opportunity of obtaining rediscounts by actually presenting specific items of paper, not as collateral but for the purpose of obtaining a bona-fide rediscount in each and every case. Further, it has established throughout each federal reserve district a definitely known rate of rediscount, published each week, and available to all member banks upon exactly the same conditions. The effect of this change has been important. It has tended to bring about the standardization of rates by city banks on a level substantially similar to that fixed by the federal reserve bank in the district in which the rate was offered. It has thus given to borrowing banks a standard of comparison which in the past they have never possessed. They now know that by going to the federal reserve bank with a given carefully described kind of paper, they can get a thirty-day accommodation at, say four per cent. In the past they have usually learned from their financial journals that "prime" commercial paper could be disposed of at, say four per cent, while "good to fair" was considerably higher; but they have too frequently found when presenting their paper that it was of the good to fair variety, and, as such, necessitated the payment of the higher rate. Discount rates throughout the country have undoubtedly been abnormally low ever since the autumn of 1914. The Federal Reserve Board has recognized this fact, and has constantly endeavored to avoid making them lower than they should have been. It is therefore impossible to say as yet whether the effect of the federal reserve system has been the much desired lowering of rates of interest. What is certain is that the banks have had their discounts at a very low rate, and that they have obtained these discounts under standard conditions that they probably could not have hoped to obtain without the new system. It should be added that in three at least of the existing districts the system has been severely tested, and its capacity to meet the needs of member banks and relieve them by redis-

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counts has been demonstrated. Such banks fully appreciate the effect of the system in securing them stable and reasonable rates of accommodation.

All this, however, has had to do merely with the rate of interest paid by one bank to another. What the public is prone to inquire is whether the new system has succeeded in reducing the rates to the customers of the banks. To this it may be answered that anything that results in reducing the rate of interest a bank has to pay, tends in due time to reduce the rate of interest it can charge. Further, the fact that individuals know that their bank is able to rediscount a given note at, say four per cent, necessarily makes them unwilling to pay an excessive advance over that rate. Business men who at present understand that their paper falls within the requirements of the Federal Reserve Act, are able to demand and do in practice exact a rate on such paper corresponding roughly to the rate fixed by the federal reserve bank plus a moderate commission. Some of them have been able to discount their paper below that rate because their own banks were holding high reserves and were eager to get business. Had the conditions been reversed, and had severe stringency been prevalent, they would have been able to demand accommodation from their banks based upon the rate charged by the federal reserve bank of the district. The effects of the federal reserve system upon the large business man, or the business man irrespective of size, who knows how and is able to make his paper coincide with the requirements of the Federal Reserve Act, have been already perceptible and important. The effect of the Act upon other borrowers whose paper is not eligible to rediscount has probably been very much less. In time it is to be expected that every borrower will get the indirect benefits to which he is entitled under the law; but this is a matter involving banking competition, and requiring a relatively long period for its application.

The Federal Reserve Act, however, made provision for a system whereby the benefits of the law should be definitely conveyed to the public at large whenever circumstances would permit. This was found in the open market section (section 14) of the law. As originally drafted, section 14 provided that

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federal reserve banks might buy in the open market notes, drafts and bills of exchange of the kind which had been made eligible for rediscount. The provision was subsequently emasculated so as to apply only to bills of exchange and cable transfers; but the bills-of-exchange provision alone would be sufficient to insure a very large circle of transactions between federal reserve banks and the people at large, based upon the actual sale of goods, and without the intervention of any member bank. This provision was necessary from a strict banking standpoint for the purpose of enabling the reserve banks to make their rates of discount effective—that is to say, to insure the extension of rates similar to those which they themselves were charging. The abnormally low rates of interest which have prevailed in the United States thus far since the organization of the new system have made it less necessary to apply this plan than would otherwise have been the case. The Board, at all events, has not issued any regulations governing open-market transactions; and though the reserve banks have lately been officially informed that they have the power to proceed with such transactions without waiting for the Board, they have not acted on the suggestion. The open market provision therefore (except as it relates to municipal warrants, acceptances and bonds) has remained inoperative, and what will be done with it in the future remains to be seen. It is undoubtedly one of the most important provisions in the Act and forms the means whereby the benefits of the federal reserve system may, if desired and permitted, be carried immediately beyond the limited circle of banking customers without waiting for the slow effect of indirect competition. One aspect of the question as to how far the so-called "small man" has obtained benefits from the reserve system, may be better understood from an analysis of the paper discounted by federal reserve banks, according to the size of the note. Such an analysis is presented in the table on page 602, and from this it is clear that loans of the smaller class have greatly predominated. A reason why this has been the case has been that up to date the business of federal reserve banks has been almost wholly with the smaller institutions among their members. In those districts where the rank and

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COMMERCIAL PAPER, EXCLUSIVE OF BANKERS' ACCEPTANCES, REDISCOUNTED BY EACH OF THE FEDERAL RESERVE BANKS DURING THE MONTH OF AUGUST, 1915, DISTRIBUTED BY SIZES.

NUMBER OF PIECES AND AMOUNTS.

[In thousands of dollars.]

BANK.	TO $100.		OVER $100 TO $250.		OVER $250 TO $500.		OVER $500 TO $1,000.		OVER $1,000 TO $2,500.		OVER $2,500 TO $5,000.		OVER $5,000 TO $10,000.		OVER $10,000.		TOTAL.		PER CENT.	
	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.
Boston	....	.....	6	1.1	31	12.3	26	18.0	15	18.7	5	20.6	1	5.1	....	.....	84	75.8	0.9	0.6
New York	....	.....	16	3.0	36	14.2	33	23.6	23	40.6	6	20.1	5	37.5	1	18.0	120	157.0	1.3	1.3
Philadelphia	10	0.8	31	5.5	25	9.3	17	13.3	52	99.8	69	317.7	27	242.1	5	99.5	236	788.0	2.6	6.5
Cleveland	22	1.5	41	7.2	29	10.5	23	17.0	30	55.0	20	75.9	8	59.8	3	49.2	176	276.1	1.9	2.3
Richmond	371	29.0	574	103.3	683	269.8	573	467.9	499	880.8	321	1,329.3	78	613.0	17	280.5	3,116	3,973.6	33.7	32.5
Atlanta	240	16.9	378	65.9	362	138.2	293	229.6	305	542.9	192	774.3	43	321.3	15	240.6	1,828	2,329.7	19.7	19.0
Chicago	2	.3	7	1.4	37	15.8	39	31.0	58	101.9	22	85.6	10	69.8	....	.....	175	305.8	1.9	2.5
St. Louis	40	3.0	87	15.0	95	36.0	72	55.7	78	132.9	29	120.1	24	169.2	1	20.0	426	551.9	4.6	4.5
Minneapolis	....	.....	50	8.3	51	18.8	72	51.3	107	166.2	40	134.4	19	106.5	2	21.6	341	507.1	3.7	4.1
Kansas City	27	2.0	117	20.1	143	50.9	145	103.4	149	244.5	50	161.9	17	114.3	6	78.7	654	775.8	7.1	6.3
Dallas	117	7.6	469	76.4	406	149.5	322	228.3	318	501.6	160	601.2	53	346.0	10	134.0	1,855	2,044.6	20.1	16.7
San Francisco	1	.1	35	5.9	40	14.8	39	27.6	58	91.4	37	135.8	13	89.0	6	83.7	229	448.3	2.5	3.7
Total	830	61.2	1,811	313.1	1,938	740.1	1,654	1,266.7	1,692	2,876.3	951	3,776.9	298	2,173.6	66	1,025.8	9,240	12,233.7	100.0	100.0

PERCENTAGES OF AMOUNTS OF EACH CLASS TO TOTAL.

Boston	....	.....	.....	1.4	.....	16.2	.....	23.8	.....	24.7	.....	27.2	.....	6.7	....	.....	.....	100.0	.....	.....
New York	....	.....	.....	1.9	.....	9.0	.....	15.0	.....	25.9	.....	12.8	.....	23.9	....	11.5	.....	100.0	.....	.....
Philadelphia	....	0.1	.....	.7	.....	1.2	.....	1.7	.....	12.7	.....	40.3	.....	30.7	....	12.6	.....	100.0	.....	.....
Cleveland	....	.5	.....	2.6	.....	3.8	.....	6.2	.....	19.9	.....	27.5	.....	21.7	....	17.8	.....	100.0	.....	.....
Richmond	....	.7	.....	2.6	.....	6.8	.....	11.8	.....	22.2	.....	33.5	.....	15.4	....	7.0	.....	100.0	.....	.....
Atlanta	....	.7	.....	2.8	.....	5.9	.....	9.9	.....	23.3	.....	33.3	.....	13.8	....	10.3	.....	100.0	.....	.....
Chicago	....	.1	.....	.5	.....	5.2	.....	10.1	.....	33.3	.....	28.0	.....	22.8	....	.....	.....	100.0	.....	.....
St. Louis	....	.5	.....	2.7	.....	6.5	.....	10.1	.....	24.1	.....	21.8	.....	30.7	....	3.6	.....	100.0	.....	.....
Minneapolis	....	.....	.....	1.6	.....	3.7	.....	10.1	.....	32.8	.....	26.5	.....	21.0	....	4.3	.....	100.0	.....	.....
Kansas City	....	.3	.....	2.6	.....	6.6	.....	13.3	.....	31.5	.....	20.9	.....	14.7	....	10.1	.....	100.0	.....	.....
Dallas	....	.4	.....	3.7	.....	7.3	.....	11.2	.....	24.5	.....	29.4	.....	16.9	....	6.6	.....	100.0	.....	.....
San Francisco	....	.....	.....	1.3	.....	3.3	.....	6.2	.....	20.4	.....	30.3	.....	19.9	....	18.6	.....	100.0	.....	.....
Total	....	.5	.....	2.6	.....	6.0	.....	10.4	.....	23.5	.....	30.9	.....	17.7	....	8.4	.....	100.0	.....	.....

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file of the members were banks of small or moderate capitalization, the business of the reserve banks has been much more active than in those where the bulk of the capital was in the hands of a few very large banks. As is suggested by the table, the large banks have, to a considerable extent, stood aloof; partly, no doubt, because their reserves were high and they did not need to seek accommodation outside of their own vaults.

It is, however, both an interesting and a regrettable fact in the present situation, that a certain number of the city banks have been inclined to regard the federal reserve banks as competitors of their own, likely to draw the country banking trade away from them, and consequently to be more or less quietly opposed in their operations. Coupled with this has been the fact that few well-managed city banks have been in position to require any assistance themselves. The consequence has been that the business of several of the reserve banks during the first year of their existence has been, to an extent that will probably never again be duplicated, confined to dealings with country banks in more or less difficult circumstances. There are exceptions to this statement. Some prosperous and able bankers, including a few who did not need any accommodation, have deemed it wise to become customers of federal reserve banks for the purpose of keeping the machinery in working order, or of showing good will, or of, incidentally, clearing a neat profit for themselves, as in the case of one large bank which retired its interest-bearing clearing-house certificates by discounting at a lower rate with a federal reserve bank. These cases, although more or less numerous, are, however, as already stated, the exception. The efforts of the federal reserve system in the aggregate have therefore thus far been devoted largely to the relief of the small country institutions. This has been in many ways a service of exceptional merit. During the period from November 16, 1914, to October 1, 1915, there have been remarkably few bank failures, as against the heavy crop of failures which has usually succeeded past periods of stringency and difficulty. Undoubtedly the federal reserve system has done well in preventing bank failures—how well would be only a matter of opinion even on the part of those intimately conversant with

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the situation in each district. While recognizing this situation the student of banking will, however, naturally inquire whether in fact the federal reserve system in its future operations is likely to confine itself largely to dealing with hard-pressed members. In answering this question a great deal must depend upon the extent to which the banks enter the open-market field, and the extent to which individual business men consent to sell their paper in the form of bills of exchange available for purchase by reserve banks under the open-market section of the law. It will probably be some time before large city banks, heretofore in the habit of doing a substantial part of their business with country bank customers, consent to abandon this trade, even in part; and a still longer time before they will habitually resort to the federal reserve banks themselves. It will be a matter of education and also of development to induce them to do so. Meantime the federal reserve banks may look to open-market operations as a means of enlarging their business beyond the confines of mere assistance to members who find themselves obliged to seek aid.

However this may be, the tendency of the reserve banks, under existing conditions, to deal largely in paper of small face value, is illustrated by the comparison already furnished which shows that nearly one-third of all paper discounted was in notes varying from $2500 to $5000; and nearly one-fourth was in notes between $1000 and $2500; less than nine per cent of the notes (taking August as a representative month) were over $10,000 each, while a substantial percentage of all was under $500. The comparison, moreover, undoubtedly affords a conclusive reply to those who have alleged that the resources of federal reserve banks were being used simply for the promotion of the interests of city banks.

IV

One of the most loudly advertised elements of "banking reform" has been the necessity for an "elastic currency." During the panic of 1907, and again during the stringency of 1914, great quantities of emergency circulation—whether clearing-house certificates or what not—were issued. When the

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Federal Reserve Act was under discussion, an undue proportion of the time was devoted to consideration of its provisions in relation to the currency. Experience thus far has unquestionably shown that the currency function of the federal reserve bank has been unimportant. It is true that federal reserve banks have obtained and placed in the hands of the public very nearly $135,000,000 of their own notes; but the bulk of this sum has been represented by gold and lawful money which has been deposited with federal reserve agents dollar for dollar. In all, the actual liability of the federal reserve banks for outstanding notes (protected by commercial paper) is only about fifteen million dollars. The figures just given—as well as all other evidence attainable—show that little element of "elasticity" in the correct sense is to be perceived in the federal reserve notes up to date, notwithstanding the fact that the Federal Reserve Act contains practically every provision known to monetary science for forcing the notes back to their issuers. This state of affairs with regard to federal reserve notes is partly due to the fact that, during most of their life, the circulation was clogged by the Aldrich-Vreeland notes which had been so plentifully issued last autumn, and partly to the fact that the new federal reserve banks were organized upon the so-called "banking theory" rather than upon the currency theory, and that consequently they perform their service without necessarily involving the issue of notes. Furthermore, there is the general fact that the circulation of the United States is already too large, and is daily being added to by imports of money from abroad. The notes have been "elastic" in the sense that they could easily and promptly be obtained when the collateral for them was available, and had reserves been close to the legal level the notes would have been promptly sent home for redemption. But in actual practice, and judging solely from the superficial facts of the case, federal reserve notes have not thus far either served an important use or shown how they would act upon occasion. Indeed, there is much reason to hope that they would not have to be largely availed of in times of panic at all, but that the member banks would resort to the modern method of building up their reserves by calling for credit with the

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reserve bank and by paying out of their own vaults in corresponding proportion the cash that they happened to have on hand.

In practice, the issue of federal reserve notes has drifted away from the manifest intention of the Federal Reserve Act. The original purpose of the law was that of issuing notes only upon commercial paper rather than that of authorizing their issue as a kind of currency certificate. There is, however, no statutory prohibition to interfere with the withdrawal of collateral from behind note issues, provided a bank be willing to deposit an equal amount of money, the replacing of this same block of collateral for the purpose of obtaining an additional note issue, its withdrawal a second time and so on, so that reserve banks have been able at will to issue their new currency practically as a mere exchange for the worn-out legal tenders, undesirable silver certificates and inconvenient gold certificates of which member banks might desire to relieve themselves. To a very large degree, therefore, the federal reserve notes thus far issued have become simply currency certificates, and their flotation has nothing whatever to do with the question of elasticity in the currency.

While, however, the reserve notes up to date have been largely a convenience, serving their real purpose as a credit currency chiefly in those districts where lending has been most active and where in the past the demand for notes has been more urgent than elsewhere, the experience that has been accumulated during the few months since the organization of the system shows that the notes will unquestionably meet the needs of the country in the event either of urgent necessity due to panic or of steady growth of business demand that calls for a large supply of currency. The Federal Reserve Board has provided for the printing of an adequate stock of notes, some $600,000,000 already having been manufactured, so that the total stock in hand is able to meet any requirements that are indicated or suggested by past experience. Moreover, the mechanism for the distribution of the notes has worked smoothly and expeditiously. There has been no delay in transmitting the notes to the points at which they were called for, and few unnec-

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essary formalities have been thrown around the process of shipping. The future of the federal-reserve note will depend a good deal upon that of the national bank note. The process of refunding the bonds upon which the bank notes are based has not yet begun, and under the provisions of the law relating to the purchase of bonds, it will not begin for some time to come. The length of time required to make a perceptible reduction in the volume of national bank notes will determine the period necessary to give to the federal reserve notes the quality of a genuinely elastic currency, and to secure their actual issue on the strength of commercial paper to an amount which will appreciably affect the total volume of the circulating media of the nation.

A factor whose influence is yet to be determined is the so-called "federal reserve bank note," a kind of bank note to be issued by federal reserve banks when so disposed, based upon the bonds to be taken over by them from member banks. If many such bank notes should be issued the scope of the federal reserve notes would, of course, be correspondingly limited; but there is as yet little reason to believe that considerable issues of such notes will occur.

In the domain of note circulation, therefore, as in that of commercial paper, it must be said that the federal reserve system has barely made a beginning in the cultivation of the field opened to it. It has developed the machinery provided by the law, and has shown that such machinery is effective and adapted to the purpose. It has not been called upon for large exercise of the powers of this mechanism, but experience has made certain, what was already plain to students of American banking history, that a long period will be necessary for the complete carrying-out of the purposes of the Act in the substitution of elastic credit notes for the present national bank notes.

V

In some ways the least satisfactory phase of the history of the federal reserve banks during the past year has been found in connection with the system of collecting and clearing checks.

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The Federal Reserve Act provided for the transfer of reserves of specified amount from the member banks to the federal reserve banks, and it declined to make the notes either legal tender or available as reserves. The treatment of reserves and that of the note question are closely allied to one another, and embody a logical policy. The underlying thought of the Aldrich or Monetary Commission Bill was that of providing a central institution whose currency should be legal tender and available as reserves, and which, therefore, would stand ready to convert the commercial paper of member banks directly into reserve money. The Federal Reserve Act declined to make the currency of the reserve institutions legal tender or to permit it to count as reserve. It, however, specifically authorized credit balances on the books of the reserve banks to be counted as reserves for member banks. The Aldrich bill apparently contemplated the maintenance of very small reserve deposits, if any, and the transaction of little or no checking business at the proposed reserve institution. That institution was to be a bank of issue, while the Federal Reserve Act contemplated the maintenance of regular balances on the books of the reserve banks, and inevitably the use of these balances in some way. The management and transfer of balances was to constitute the real staple of the business to be done. Accepting the latter point of view as being, in truth, characteristic of the federal reserve system, it is plain that the acceptance of this conception necessarily implies a sytem whereby member banks can transfer their credit balances to one another, or to whomever they choose. Moreover, the fact that the new reserve banks have been entrusted with the actual reserve deposits of the member banks in itself almost necessarily throws upon the former the duty of performing the work which was carried on by the latter under the older system.

With all of its defects and errors, the older reserve system at all events fulfilled the duty of providing a system of exchange or remittances for banks throughout the country. The reserves carried in the form of deposits with other banks (reserve agents) were indeed at times made up largely of items that were in transit from one bank to another. If, under the new law, inter-

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bank deposits could no longer be counted as reserves, the necessary consequence of this situation, it was thought, should be to transfer to federal reserve banks the remittance and exchange functions, thereby relieving the member banks of any further necessity of keeping balances idle as deposits with other banks in cities, save in so far as relations with banks outside the system might require. This logical necessity, accepted by the Federal Reserve Act and embodied in the law, should have been accepted by the member banks at the outset, but, for a variety of reasons, numbers of them have not been well disposed toward the proposal. Many large city banks have foreseen that the effective application of the plan would almost necessarily result in loss to them of their country bank deposits, and although the wiser bankers have generally recognized that these deposits were productive of but little profit to them, many others have been reluctant to lose the advertising advantage resulting from the ability to publish large figures of deposits and to count many small banks on their list of correspondents. Country banks, in like manner, have recognized that a thoroughly satisfactory collection and clearance system would mean a sacrifice by themselves of earnings from exchange charges, which, in some cases, at least, amounted to considerable sums. Federal reserve banks, on the other hand, have in many instances had the feeling that the taking-over of a full clearance and collection system would almost necessarily inflict upon them very heavy expenses, which, coming at a time before earnings had had an opportunity to develop, would necessarily have made their revenue much less satisfactory than it otherwise might have been.

These considerations have all had their weight. It may be said in a word that, as a result of them, the federal reserve banks, instead of promptly and boldly developing their operations along lines which had been provided for in the Act, and which promised a greater degree of success and service than perhaps almost any others, have been disposed to adopt a much more cautious policy. They have established in eleven of the twelve districts a voluntary clearance system, leaving it to member banks to adhere or not, as each might see fit, to the

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clearing plan, and providing merely that if they did so, they should be prepared to accept at par, checks on other clearing banks, their own, of course, to be acceptable in like fashion. It was the theory of many persons that, with this provision enforced, economic pressure would drive non-clearing banks quickly into the system—a theory which assumed a much more active competition between banks than actually exists. Only about sixteen hundred banks have, therefore, voluntarily given assent to the new system. Yet the experience thus far obtained has plainly shown the greater serviceability, under American conditions, of the deposit credit as against the note-issuing institution. The federal reserve banks themselves have discounted paper amounting at its highest point to about forty-five million dollars; they have issued notes amounting (net) to only eighteen million dollars on the corresponding date. It may be said roughly, therefore, that of their accommodation to customers not much over one-third has been extended in the form of note issue; while the rest has been extended in the form of book credits, directly or indirectly. The comparison would be still more striking if we were to include warrants and other forms of investments purchased by federal reserve banks and included among their income-earning funds, but the other basis of comparison is undoubtedly that which is furnished by the business done for those who were entitled to carry accounts on the books of federal reserve banks—namely, the member banks of the system. The fact that, notwithstanding less than one-third of the banks of the system have adhered to the clearance plan, and notwithstanding only about one-fifth have voluntarily joined it and undertaken to promote its interests, the accommodations extended by way of deposit credits amount to two and one-half times as much as those extended by note issue, is convincing testimony of the real character of the system, and of the kind of service it may be expected to render in the future. It should be added, moreover, that important work has been done in the development of the clearing principle through the adoption of a plan for a Gold Settlement Fund at Washington. Under the provisions of this fund weekly settlements between federal reserve banks take place, and to that

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extent the shipment of ultimate means of payment between different parts of the country is avoided. The system has operated practically without the slightest obstacle or hindrance since it was first inaugurated, and has, during the months from June to November inclusive, effected the transfer of funds amounting in the aggregate to over $700,000,000. This has been done at a minimum of cost, the expense of operating the system at Washington being purely nominal, while the expense of the banks in transmitting their gold to the subtreasuries (which have held it for them, issuing gold certificates of ten thousand dollar denomination in exchange for deposits in the Gold Settlement Fund) etc. has likewise come to but a small sum, six of the banks being themselves situated in subtreasury cities, while the other six are not far distant. There is reason for hoping that by a gradual development the working of the principles embodied in the Gold Settlement Fund, as well as in the voluntary clearance system, may come to be recognized and accepted, and that when that result has been obtained, the spread of the clearance system will be so extensive as practically to include all of the member banks of the system. If such should be the case, the reduction of exchange charges throughout the United States to a basis of uniformity, and the elimination not only of unfair and excessive charges for such exchange, but also of the necessity for moving gold and lawful money from place to place, will have removed a very great burden once for all from the shoulders of the commercial community.

VI

One question inevitably and properly asked with reference to every governmental enterprise of a commercial nature is: Has the undertaking paid? With most governmental operations it is not possible to answer categorically whether a given service has "paid" or not. The federal reserve banking system is unique in that it may be subjected to either the general or the narrow test applied to governmental enterprises. Judged as a broad plan of insurance against stringency, banking breakdown, or panic, the verdict might be highly favorable and yet be coupled with an unfavorable verdict from the narrow standpoint of rev-

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enue. The federal reserve banks are going concerns; they are organized upon a commercial basis; they pay commercial salaries. Consequently the tendency will be to judge them not only by the broad general test of service, but also by the more limited criterion of profit. This discussion is intended in general to apply the broader test, but it is also necessary to consider the matter in its more restricted aspects.

The Federal Reserve Board has published complete tabulated returns showing detailed sources of income and expenditures for the period from the organization of the banks on November 16, 1914, up to and including October 31, 1915. These statistics show in general that the gross earnings of the system had been about $1,739,000, while the gross expenses of the system had been about $2,748,000. The current expenses have amounted to approximately $1,418,000. Later months show steady improvement in earnings, but it may be roughly stated that up to date the system has covered current expenses, with a surplus of some $320,000, leaving its organization cost and its equipment outlay still to be written off. Some restriction should be made upon this statement, however, since a beginning has already been made by certain of the banks in writing off their organization expenses, a proportion thereof being included as current. Thus three of the reserve banks which have been situated in a territory with a normal demand for funds, have not only covered current and organization expenses, but have shown their capacity to earn dividends and surplus.

In estimating the meaning of this statistical showing, the following facts should be borne in mind:

1. The period from November, 1914, to October, 1915, has been marked by exceptionally low rates of interest, and at times by great difficulty on the part of the banks in keeping their funds employed. The great release of reserves consequent upon the adoption of the Federal Reserve Act, and the extraordinary ease of money during the first half of 1915, necessarily implied that borrowers would come in but small numbers to federal reserve banks, since they would not need much in the way of accommodation, unless federal reserve banks were prepared to compete actively with member banks by undercutting rates of

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discount—already very low—established by the large correspondent banks and reserve agents of the cities.

2. The federal reserve banks, although nominally opened on November 16, 1914, were not in fact fully opened and ready for business until a good while after that. Even the regulations relating to the business they might transact were not fully issued by the Federal Reserve Board until some time after their organization, with the sole exception of commercial paper, even that being early superseded by another.

3. The first half-year of the new system has been very largely occupied in educating the member banks regarding the methods to be pursued by them in dealing with the federal reserve banks. Many of the latter have not been accustomed to rediscounting at all; few have thoroughly understood the process by which rediscounts were to be obtained from federal reserve banks. It has therefore been necessary to encourage member banks to affiliate themselves closely with their federal reserve bank, and to look to the latter for support and aid.

4. Even as yet, owing to the unprecedented and anomalous conditions in Europe, it has not been deemed expedient to give to federal reserve banks their full income-earning capacity. No open market regulations have been issued, and the banks are confined largely to rediscounts offered them by their members. They are precluded from going into the open market and obtaining earnings for themselves as circumstances may offer opportunity through the purchase of commercial paper, their only field for such action being thus far in connection with the purchase of bankers' acceptances.

For all these reasons, the first few months' results can not be taken as a representative period in judging the income-earning power of federal reserve banks. The non-partisan observer would almost certainly conclude that the banks have done remarkably well in meeting their current expenses, and in writing off some part of their organization charges. In fact, little more than this could have been expected of an ordinary commercial bank, so that it is fair to say that, judged even by the harsh test of practical money-making power, the federal reserve system has shown the capacity to succeed.

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Analysis of the figures makes this more than ever certain. Examination of the statistics already furnished by the Board with regard to earnings and expenses, shows that there are at least three or four of the federal reserve banks in which the power to make dividends has already been clearly demonstrated, at least one of the institutions having both been conservatively operated, made its current expenses, and put by practically a full six-per-cent dividend for the period of operation. Other banks have advanced sufficiently far in the same direction to show that they can be operated on a profit-making basis; and from them the fair conclusion is to be drawn that any successfully managed federal reserve bank can do likewise. It is, of course, to be noted that there has been a distinction between federal reserve districts which were "self contained," and those that were said to be "borrowing areas." There is no basis for such a distinction; but, on the contrary, when the open market powers bestowed by the Federal Reserve Act have been fully called into operation, there will be no reason why any federal reserve bank in any part of the country should not take advantage of investment opportunities by buying in the commercial paper market, no matter where located. Thus far, where member banks applied freely for rediscounts, earnings were large; where they did not, earnings were small. The balance wheel to be furnished by open market operations has not been connected with the main body of the banking machinery. Let it once be so connected, and the question of earnings on the part of federal reserve banks will disappear. The banks have demonstrated a capacity not only to sustain themselves under the most difficult conditions, but, with normal demand for current funds, to make substantial dividends upon their capital.

Brief reference has already been made to the accounts of the federal reserve banks on their expense side, when speaking of the subject of organization. The figures for actual expense bear out what was there said. The Federal Reserve Bank of New York today has a staff of less than sixty persons. The Federal Reserve Board at this writing has a staff of slightly more than fifty persons (including its own membership). In the matter of salaries opinions may somewhat differ. The board from the

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beginning adopted the policy of saying to the federal reserve banks that it would not attempt to interfere with any reasonable adjustment of salaries that they might see fit to make. It encouraged them to pay moderate commercial salaries based upon the standard prevailing in the communities in which the banks were situated. In the main it can be said that federal reserve banks are operated upon a basis of normal salary payments, comparing favorably with other institutions in their localities, though in some a much larger volume of business could be handled without anything like a proportionate increase in expenses. This may be explained by the fact that the banks expect the development of the business in question, and so maintain a larger corps than would be necessary if they expected to continue upon their present basis of business in the future.

VII

What has been said thus far relates to a few of the more outstanding details of management, but no review of the first year's work of the new system which dealt only with details, however important, would be adequate. The general question of banking leadership in the large sense must also be considered.

The banks of the federal reserve system and of the nation as a whole have for more than a year been confronted by an unprecedented and difficult state of affairs in the management of the country's resources during a period the like of which has scarcely been witnessed in former financial experience. Though it has changed in aspect, this situation has increased rather than diminished in difficulty and its problems are not solely of an international type, for international conditions are reflected in domestic conditions.

The reduction of reserve requirements which had been made in the Federal Reserve Act, coincident with the establishment of the new banks, released large funds which could be loaned at the will of their holders. Added to this was the great increase in loaning power produced by the organization of the federal reserve system itself, the combined banking resources of the nation making a great aggregate of fluid means which placed the country in a better position to accommodate borrow-

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ers than perhaps ever before. Just emerging from the disturbed conditions which resulted from the opening of the war, the nation eight months ago found business in many sections depressed and lacking in initiative. It was the part of wisdom for federal reserve banks not to attempt to force their great volume of resources into use, and thereby to add to the extreme ease of money which existed throughout the United States. The individual member banks, however conservatively they might be handled, would be prone to follow this policy themselves; and it was, therefore, seen to be the wiser plan that the reserve institutions should conserve their strength against a time when a change of conditions would come upon them. Such a change is now rapidly making itself evident.

The nation has entered upon a new phase of the financial situation which will call for new methods and new leadership. At the beginning of the struggle Europe took our goods and paid us by canceling our floating indebtedness on open account; later our goods were taken and were paid for by the shipment of American securities, which were converted into means of payment through sales in the United States. At length there has set in a period in which Europe still desires to obtain our goods, but would do so upon a basis of credit accounts with the United States. The situation is one that presents unusual and perplexing problems of policy, and suggests difficulties in commerce, trade and industry that may cause hardship if not courageously and skilfully dealt with. An important part in the direction of the banking policy of the nation will rest with the reserve banks and their management.

The new system must conserve the ultimate banking resources of the country for the liquid commercial transactions whose financing it was originally designed to carry. It must be prepared to supply accommodation at every point where possible friction or difficulty may occur, and to this end it must coöperate actively with member banks in rediscounting paper of suitable kinds wherever such action is necessary in order to meet a general public demand. It must, likewise, endeavor to encourage the member banks in the policy of conservative development and of caution with respect to unfamiliar operations,

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as has been outlined. It must endeavor to safeguard with peculiar care the interests of the productive communities of the United States. The federal reserve banks are frequently spoken of, and correctly, as bankers' banks, but they are bankers' banks on the public and not on the private side. They are bankers' banks in so far as the bankers perform a public service; they are not bankers' banks in so far as bankers are in search primarily of their own profit. They are bankers' banks in the sense that they work through bankers for the purpose of equalizing supplies of capital and rates of interest, and they are public in that they aid in conveying to the public—manufacturers, merchants and farmers—all those benefits that result from united and uniform financial action.

H. PARKER WILLIS.

WASHINGTON, D. C.

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THE WRECKING SYSTEM OF THE BAHAMA ISLANDS[1]

THE British colony of the Bahamas occupies a chain of islands about five hundred and fifty miles in length. These islands extend from a point across the Gulf Stream opposite the Everglades of Florida southeastwardly almost to the island of St. Domingo. With their banks and cays they form a kind of bar lying directly in front of the Florida Straits and the Windward Passage, the most convenient outlets from the Gulf of Mexico and the Caribbean Sea into the Atlantic Ocean. The geological formation of the region is such as to render the navigation of its waters peculiarly perilous—a condition that is all the more aggravated during the hurricane season. Notwithstanding this, a world-important commerce has crossed the Bahama seas ever since Europeans first began to occupy the Americas.[2] Proximity to Europe and salubrious climate ought to have made the Bahamas the first seats of Spanish West-Indian settlements. But local conditions forbade any such event. The small amount of land surface above high tide in the colony is divided among fifteen larger and hundreds of smaller islands and cays, whose coasts are marked by but few good harbors, and whose interior parts by scant allotments of soil or other utilizable materials. Add to this their emptiness of native precious metals and their exposure to hostile attack, and we need seek no further for reasons why they were passed by for the larger islands and the mainland beyond.

But if there was only slight occasion for mine exploiters and agriculturists to stop in the place, the same was not true of all kinds of men. Although the melée of contending Dutch, Eng-

[1] The writer wishes to acknowledge that financial assistance from the Carnegie Institution of Washington, D. C., made possible the collection of most of the materials embodied in this paper.

[2] On the routes taken by commerce, see Accounts and Papers of Parliament (Great Britain) 1864, vol. xlix, p. 17, and on the location of the colony, *loc. cit.*, 1850, vol. xxxvi, p. 144.

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lish, French and Spanish interests rendered it impossible for any body of people to maintain itself here in peace after the abduction of the aboriginal Lucayans, it created a welcome situation for turbulent spirits who did not care for peace. Accordingly an irregular and disorderly set of fellows, who made the islands their home before the beginning of the eighteenth century, added to nature's terrors for commerce the first of a long-drawn-out series of man-made destructive agencies. These free-booters, themselves intermittent settlers, were the chief occupants of the Bahamas for a period of about two centuries. The foundation of the Carolina proprietors made but little improvement, until after the Queen Anne's war, when a non-pirating governor at last reduced the small New Providence settlement to a semblance of order.[1] This new régime, however, altered appearances rather than facts. For in the first place the effective jurisdiction of orderly government did not cover the out-islands nor near-by non-English coasts: a mere change of base then could put the pirates outside its pale. Secondly, at that time it was often difficult to distinguish buccaneer from privateer, especially since wars were frequent and means of communication slow and irregular. It may also be said that buccaneering tended to shade into privateering (and perhaps vice versa) as a more orderly form of accomplishing what was to the operators the same end. But after the down-fall of Napoleon a century later, the establishment of peace in Europe put an end to privateering. Even this, however, failed to cut off the Bahamas' share in the commerce that was "none of theirs," because that commerce now increased, itself at the same time suffering an increase in number of casualties on the shoals. Then it was that privateering gave way to salving stranded hulks and cargoes. The transition was far from abrupt. For salving in one form or another seems to have been a secondary function of buccaneer and privateer, when off regular duty; and their successors, the salvors, in so far as they had to do with merchantmen, abandoned free-booting almost

[1] Wright, History of the Bahama Islands, pp. 422–23. *Cf. Merchants' Magazine*, vol. 44, pp. 46–47, and *New York Journal of Commerce*, July 22, 1857.

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altogether, and contented themselves with this more orderly and humane occupation.

By the middle of the nineteenth century the condition of Bahama industries that depended upon native resources was not reassuring. The few thousands of population, after the American loyalists had come, had increased to about 27,000 in the six decades,[1] but there had not been a commensurate growth of economic interests in the interval. Cotton-growing, upon which slavery had flourished, had begun to decline before slavery was abolished, and thereafter fell to almost nothing.[2] The old planters for their part had in many cases abandoned their places and emigrated, or turned to other pursuits.[3] Such negroes as gave up service with the whites were counseled by the English officials to do for themselves. Some undertook it on newly patented crown lands or at the salt-ponds. But they were too much accustomed to an easy manner of life, and had too little incentive to urge them on to early improvement.[4] Moreover, fickle seasons and lack of suitable connections with markets for their produce added to their difficulties, while their own short-lived enthusiasm could not make up for the loss of the experience and managerial sense of their former masters. Consequently many of those who tried the experiment soon stagnated in the continued effort, or were easily induced to abandon it.

Inducements to turn elsewhere were not lacking. Wrecking seemed to be a way of getting a living without having to create the goods for the purpose. Slaves had engaged extensively in salving before the abolition of slavery[5]: emancipated negroes were not to be permanently turned away from it, as long as it seemed to offer the most attractive means of livelihood the colony could afford. Some whites also felt the same way about it.

[1] Accts. and Papers of Parl., 1862, vol. xxxvi, p. 21.

[2] *Loc. cit.*, 1857–58, vol. x, p. 75. [3] *Loc. cit.*, 1863, vol. xxxix, p. 8.

[4] *Loc. cit.*, 1859, vol. xxi, p. 49, and 1860, vol. xliv, pp. 12–13.

[5] *Royal Gazette*, July 17, 1822, and House Votes, 1831, app., p. 73. Slave captains as well as slave common sailors had been found among the operators of these vessels. The British interference with slavery had greatly hampered their freedom of action. *Cf.* Recs. of Comrs. of Corres. 1795–1833, p. 457, and *Merchants' Magazine*, vol. 44, p. 53. The records of the Commissioners of Correspondence (1795—1833) consist of letters to and from the Colonial Agent at London.

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Accordingly in the competition of opportunity, salving diverted energy from every other kind of labor.[1] In fact many who devoted their time chiefly to other occupations kept themselves ready to join in salving ventures as occasion arose.[2] As the number of wrecks increased, landsmen caught the infection and swelled the ranks, until salvor seamen became the most signal, if not also the most important, body of laborers the small colony possessed.[3]

I

The wrecking grounds were quite extensive, and the prospect of encountering a wreck somewhat fortuitous. A given vessel could not be present to share in every cargo salved, and thus there might fall considerable intervals between times of its sharing in the fruits. In order to avoid too meager and too irregular returns, a step towards a steadier accrual of returns was taken in an arrangement called consortship. The contract under this name meant that the crews of two or more vessels so engaging shared profits with each other, even though only one of their number might take part in the work in a given case.[4] This contract affected in no way the shares of vessels not so consorting, yet participating in the work, and affected the shares of consorting parties only in the residue after payment to the non-consorting participants. Upon arriving at the stranded vessel the first master of a salving vessel to come on board acquired thereby the right to become wreck-master, director of the works. He alone was authorized to enter into a binding agreement with the master of the wrecked vessel, to which latter he was himself subject, and it was his province to select from those present as many assistants as were required for the labor

[1] Accts. and Papers of Parl., 1857–58, vol. xl, p. 24; 1863, vol. xxxix, p. 10, and 1866, vol. xlix, p. 48.

[2] *Loc. cit.*, 1866, vol. xlix, p. 24.

[3] *Cf.* court decree in case of the bark Savannah (1860), and Accts. and Papers of Parl., 1852–53, vol. lxii, p. 45, and 1857, vol. x, p. 75. The various court decrees referred to are published in the Decisions of the Court of Vice-Admiralty of the Bahamas (one volume).

[4] House Votes, 1858, app., p. 45.

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in hand. No one of the others had a right to negotiate for work on that wreck without his sanction.[1] And either overt agreement or customary rules also established a consortship between all vessels engaged in the task, a relationship existing solely for the purposes of that one case, and not to be confused with the other variety of consortship mentioned above.[2]

Salved goods were ordinarily delivered at the port of Nassau, where salvage was rendered and accounts were settled. Derelict cases were sent at once to the court of vice-admiralty.[3] In other cases, if all was satisfactory, agreements previously made were executed and transactions brought to an end.[4] But the circumstances under which distressed ship-masters entered into such agreements gave the salvors a tactical advantage. The former therefore often wished to reconsider matters after reaching port. In case of final dispute as to what should be done, two courses offered, private arbitration and suit in the vice-admiralty court. The former was most commonly chosen, because of its greater convenience and smaller cost. It virtually meant, however, settlement by the Nassau chamber of commerce. For this body, incorporated by act of assembly and invested with powers to regulate certain commercial concerns of the colony,[5] was composed of Nassau merchants and commercial men, who were conversant with the handling of salvage cases, and embraced in its membership practically every individual available for such arbitrations. Thus, either through the use of its members as individuals, or through its own adjustment of disputes and setting precedents for future cases, the chamber long exercised a decisive influence upon the customs obtaining in this

[1] *Cf.* court decrees in cases of the Stephen F. Austin (1858), steamer Karnak (1862), and the Hartley (1862), and statute of 11 Vic., cap. 24.

[2] Court decrees in cases of the Saxon (1857) and the Hartley (1862).

[3] Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146.

[4] Desp. of Colebrooke to Glenelg, no. 19 (1838), and House Votes, 1858, app., pp. 5–6 and 31. The first citation refers to the despatches of Governors of Bahamas to the Colonial office at London. "House Votes" refers to votes of the House of Assembly of the Bahamas.

[5] Statute of 52 Geo. III, cap. 15, and Desp. of Colebrooke to Glenelg, no. 114 (1838). *Cf.* also Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146.

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all-important matter.[1] Moreover these men were themselves interested in the business: they were owners, or part owners, of salving vessels, they knew the hardships of the salvors, sympathized with them, and as a consequence felt that salving ought to be liberally remunerated.[2] Although these arrangements did not appear exceptionable to the local people, it would seem that outside of Utopia they would have constituted an untoward situation for the foreign owners of stranded property. Governor Bayley found the latter "at the mercy of those directly or indirectly interested in wrecking, and compelled . . . to submit to terms, which in other places, and under different conditions, they might have been able to dispute."[3] Nevertheless for a long time most of the cases arbitrated were referred to tribunals of this character.[4] About the middle of the nineteenth century reference to special arbitrators became more common,[5] but the slight change resulting affected in no material sense the dictation of the chamber of commerce.

In default of adjustment elsewhere a case could finally be taken to the court of vice-admiralty, where its merits could be sifted. This was, however, a jump from the frying-pan into the fire. For, in the first place, this court, especially under Justice Lees, placed a high estimate on both the cost and the merit of salving and decreed salvages accordingly.[6] And next, according to the testimony of three several English governors of the colony, who observed closely the administration of the

[1] House Votes, 1858, app., p. 31, and Desp. of Colebrooke to Glenelg, no. 114 (1838).

[2] Desp. of Colebrooke to Glenelg, no. 114 (1838), and House Votes, 1858, app., pp. 26–27. *Cf.* also *Bahama Herald*, Mar. 14, 1855, and the complaint of two ship captains at the "mock tribunal," *loc. cit.*, Dec. 28, 1859. See further, *Merchants' Magazine*, vol. 44, p. 54. For a defence of its policy, see *Bahama Herald*, Jan. 22, 1851.

[3] Desp. to London, no. 5 (1857), copied in House Votes, 1858, app., p. 43. On the corresponding features of the Key West system, see *Merchants' Magazine*, vol. vi, pp. 349 and 353. It is related that some individuals at Key West acted "in the quadruple capacity of owner of the wrecker, agent for the wreckers, consignee of the captain and agent for the underwriters."

[4] Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146.

[5] House Votes, 1858, app., pp. 31 and 51.

[6] *Infra*, pp. 625–626.

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court, resort to its bar was infrequent on account of its exorbitant fees and costs.[1] By 1860, however, the court had begun to play a moderating rôle, although still leaning to the views of the community in respect to liberality.

In order rightly to comprehend salvage charges in the Bahamas it is necessary to have in mind the local conceptions of material and other costs and of the valuation of services rendered, and also the bent for mulcting the foreigner. The business of salving was perhaps an expensive one. As it was here carried on it kept afloat large numbers of vessels and men, capital and labor accounts, which were employed only a part of the time, and it involved dangers to life and limb, arduous labor and other hardships and privations. Undoubtedly the assessors gave such considerations premium weight in fixing salvage.[2] Secondly, salving services were rendered to owners for property that had value. Now the old system of salvage assessment in the islands was rather one of specific than of *ad valorem* salvages, although some regard was had for the latter, and the change that occurred in the heyday of the industry enhanced that regard.[3] But this had little weight towards moderation, when exaggerations of perils to wrecked vessels, of heavy seas and bad state of the weather were admitted in evidence.[4] Thirdly, and most important for our purposes, was the attitude of the people in heaping manifest injustice upon those whose interests had fallen into their hands. There is a sense in which every salvage case was a case of the Bahamas versus the owners of wrecked property. And, as we have seen, all the circumstances conspired to give the former the advantage over foreign ship- and cargo-owners. Their customs too had become

[1] Desps. of Governor Cockburn, no. 19 (1839), and Governor Bayley, no. 5 (1857), and Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146. In the last cited Governor Gregory reported that salvage questions "are strictly within the jurisdiction of the Vice-Admiralty Court, but in practice the parties avoid so expensive a process by allowing the matter to be cheaply and rapidly adjusted by a local tribunal composed of commercial men."

[2] E. g., *cf.* court decree in case of the Saxon (1857).

[3] *Cf.* Accts. and Papers of Parl., 1866, vol. xlix, p. 51, and House Votes, 1858, app., p. 31.

[4] *Cf.* court decree in case of the Saxon (1857).

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hard and fast by long usage, and in their view little thought was to be taken for the outsiders' interests. Moreover it had been the avowed policy of pirating and privateering in their respective places, to reward themselves with the entirety of ships and cargoes, when permitted; in modified form the same animus survived in the wrecking system, which, however, chose to leave something to the clientele it served.

Of old it had been the rule to award salvage prior to the sale of the property, but about 1850 the order was reversed and salvage decreed according to the value of the things recovered, the valuation both for this purpose and for customs payment being determined at the vendue block.[1] The actual rates of salvage were high. Governor Rawson, reporting in 1864 what he had ascertained, wrote that two decades earlier the average rate had been 60 per cent of the value of the things salved.[2] From somewhat conflicting evidence it appears that in 1853–56 it had declined to 55 per cent,[3] while in 1864 it did not exceed 40 per cent. But to this apparent rate was to be added approximately 14 per cent more for commission charges, storage, labor etc., which accrued to the colony as a practical addition to salvage remuneration.[4] Rates as high as 75 per cent were imposed on goods whose owners appeared.[5] But on unclaimed derelict, an acknowledged droit of the crown, salvors received 90 per cent—double that allowed by the High Court of Admi-

[1] *Cf.* House Votes, 1858, app., p. 31, and Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146.

[2] Accts. and Papers of Parl., 1866, vol. xlix, p. 51.

[3] House Votes, 1858, app., p. 43. *Cf.* also statement that salvage was never less than fifty per cent, contained in letter of the Liverpool Committee of the Association for the Protection of Commercial Interests, *loc. cit.*, pp. 26–29, and that of two wrecking captains at Liverpool in 1852, to the effect that salvage varied from thirty per cent to sixty-five per cent, *loc. cit.*, pp. 30–31. Also *loc. cit.*, pp. 11 and 51–52. A writer in the *Merchants' Magazine*, vol. xliv, p. 53, states that the rates in the Bahamas varied from thirty per cent to eighty per cent. In the case of the Saxon (1857), the court gave thirty per cent. *Vide* decree. Further, on the rates charged, *vide* documents in the House Votes, 1858, app., pp. 4, 5–6, and 50–53. In the *Bahama Herald* of Jan. 22, 1851, may be found admission and vindication of the high rates.

[4] Accts. and Papers of Parl., 1866 vol. xlix, p. 51. *Cf.* also *Nassau Guardian*, Mar. 31, 1866.

[5] House Votes, 1858, app., pp. 26–27 and 31.

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ralty in like cases in Great Britain—and the governor 10 per cent, after the vice-admiralty court had first taken its toll of 30 per cent of the gross.[1] On goods salved wet, or in damaged condition,[2] the rate was generally higher than on those in good condition.

Regular salvors were allowed more liberal compensation for their services than those who, happening to be at hand, turned aside from other errands to aid the distressed.[3] Whatever may have been its other consequences, this custom was defended as an encouragement to those who maintained a state of momentary preparedness to assist vessels in need.[4] The portion of salvage allotted to each vessel engaged in a venture was determined upon the basis of the number of men in its crew, saving that in

[1] Desp. of Governor Bayley, no. 78 (1857), and Report of the Committee of the Privy Council for Trade on Governor Bannerman's recommendations as to the regulation of salving, in House Votes, 1858, app., pp. 14–16. *Cf.* also *loc cit.*, pp. 6, 7, 13, and 53. The Blue Book report for 1849, Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146, had mentioned salvage on derelict as "amounting in most cases to seventy-five per cent—not of gross proceeds, but of the net amount after payment of the court's charges." But in a subjoined note it was said that "Salvage of ninety per cent was allowed at the very last session of the court." The Blue Books of the Bahamas consist of classified statistics of the colony reported annually for the colonial office at London.

Comparison with results in the same line at Key West, as given in the *Merchants Magazine*, vol. xxxii, p. 627, and vol. xxxviii, p. 233, affords significant results. Having come from the Bahamas, it is not improbable that at first they held to the customs they, or their fathers, had known before their migration. But under the control established by the court of Justice Marvin, beginning about the year 1840, the following partial results are noted: In the decade 1848–57 the estimated value of salved vessels and cargoes brought to that port was $19,720,927, the total expenses $1,976,498, and the salvage $1,153,957. According to this the expenses were 10.02 per cent and salvage 5.85 per cent of the value of the things salved.

[2] House Votes, 1858, app., p. 31. In the article in the *Merchants' Magazine*, vol. vi, pp. 349–54, the Key West salvors were accused of salving wet as much stuff as possible, since in that case a higher rate was allowed. Much of the wet stuff, it was said, sweated before reaching port.

[3] House Votes, 1858, app., pp. 51–52, and court decrees in cases of the Marion (1863) and the Tweed. In the latter the court said: "In awarding salvage under the Bahama wrecking laws I have always taken into consideration the fact that the regulars are fitted out for the sole purpose of wrecking and therefore they are entitled to a higher rate of remuneration than a vessel in the prosecution of some other voyage, which meets with a ship in distress and performs salvage services."

[4] Court decree in case of the bark Savannah, and House Votes, 1858, app., pp. 51–52 and 53–54.

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case its ratio of burden capacity to strength of crew exceeded considerably that of its consorts, some allowance was made for that fact.[1] For obvious reasons it led to the over-crowding of small ships with unnecessarily large crews, the average crew in 1857, according to Governor Bayley, being nearly twice as large as tonnage would warrant.[2] At the same time no doubt the lust after the quarry was correspondingly increased. Of the allotment to a particular vessel common practice gave the owners one-third, leaving the rest to captain and crew. In the distribution of the latter were some variations, owing perhaps to varying numbers in the crews, the captains receiving two or three shares each, mates one and a half or two, and common sailors one each.[3] But the captain who acted as wreck-master was accorded an additional portion for his managership. The £5 to £20 set for this by the law of 1848 probably followed the practice prevailing theretofore.[4] Consorts in absensu, before the prohibition against their participation in 1852–53,[5] depended for their shares upon the execution of agreements separately formed with parties involved in the particular operations.

Ostensibly this is the end of the distribution of the proceeds. In fact there was a more general participation than the above description indicates. Wrecked goods were the prey of local society, and every man had his tarred stick ready to mark his claim as occasion offered. The necessitous colonial treasury took its *ad valorem* duties at the rate of 15 per cent on the valuation set at the "Vendue House";[6] the vice-admiralty court

[1] House Votes, 1858, app., pp. 13 and 45, and Desp. of Governor Bayley, no. 5 (1857). [2] Desp. no. 5 (1857).

[3] House Votes, 1858, app., pp. 30–31. This sharing system, it is said, survived until the end of the nineteenth century.

[4] 11 Vic. cap. 24. *Cf.* also court decrees in cases of the Stephen F. Austin, Karnak, Yumaculado, Hartley, Villa de Caen and G. J. Lawrence. Also Desp. of Governor Bannerman, no. 38 (1856) and House Votes, 1857, p. 27.

[5] Statute of 16 Vic., cap. 1. *Cf.* House Votes, 1858, app., p. 13, and *Bahama Herald*, Mar. 16, 1853. The tenor of Governor Bayley's despatch, no. 5 (1857), seems to be to the effect that no such restriction was being enforced when he came to the government.

[6] Accts. and Papers of Parl., 1850 vol. xxxvi, p. 146. *Cf. loc. cit.*, 1854, vol. xxxvi, p. 48, and 1866 vol. xlix, p. 51.

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gathered in fees in the manner above stated, and in derelict cases the governor got his ten-per-cents; incidentally the members of the legal profession received their share for drawing papers, adjusting claims and trying cases; the salvors have been already mentioned, and finally the mercantile class through the shares earned by their vessels, and through warehouse fees, speculation in wares etc.[1] purchased at wreck sales benefited probably most of all. In effect a quite general distribution of immediate proceeds, and a still more general diffusion of ulterior benefits, resulted from the peculiar arrangements.

II

The description of the salving system is inadequate without a consideration of the character and conduct of the salvors. The great majority of the population of the Bahamas were Africans, or of African descent. It was an easy consequence that most of the salvors were of the same breed, although many of them were whites.[2] They were an uneducated class, whose members had been brought up at sea from childhood and were generally content to become and to remain "hardy and intrepid" children of the sea.[3] Seaworn in countenance and uncouth in costume they took pride in preserving certain outward traits of their lawless seventeenth-century predecessors, for instance the carrying of big knives in their belts.[4] They loved at once the ease of lolling on the decks of idle ships, the occasional excitement of rescue work, the diversion of visiting the metropolitan island and the gambling prospects of gain in the whole enterprise. But their manner of life did not foster

[1] House Votes, 1858, app., pp. 26–27 and Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146.

[2] On this matter *cf.* *Merchants' Magazine*, vol. xliv, p. 53, *Harper's Monthly*, vol. xxxviii, p. 440, *Royal Gazette*, May 1, and July 17, 1822, and Accts. and Papers of Parl., 1863, vol. xxxix, p. 10.

[3] Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146. In the Blue Book report here referred to the governor remarked upon "these hardy and adventurous mariners, whose power of diving is extraordinary." *Cf.* also *loc. cit.*, 1866, vol. xlix, p. 48, and *Bahama Herald*, June 28, 1856.

[4] House Votes, 1858, app., p. 47. This habit had not died out among local seamen at the beginning of the present century.

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the sense of discipline, nor encourage amicable relations with other members of their class. They were prone to quarrel over the spoils[1] of their poor trade, were unsettled and improvident in their habits, and cherished, or at least tolerated, in their ranks unethical practices that were discreditable to their craft and community.[2] There is no doubt that some of them were abandoned criminals.

Upon the abstract merits of salving we tarry only briefly. So long as the operation of physical laws caused distress to life and property in that region—a result that was inevitable while coasts were unlighted and commerce carried in sailing vessels—some one was needed to come to the rescue, and it was practically necessary that the rescuers should dwell upon the coasts hard-by. It thus became the duty of the Bahama people to furnish quotas of men and ships for this humanitarian and conservationist service. Up to the point where these quotas became full, the response to the call was commendable; and even though the required number was exceeded by the volunteers offering, that circumstance did not do away with the need for a sufficient number. But the redundancy of mouths to be fed from the proceeds, ensuing upon the too great number that responded, united with other factors present (not least of which was the body of traditions of the past) to create a situation in which a laudable calling was perverted into a sordid scramble for plunder.

Reflecting the tenor of the sources of information upon this subject, it is impossible not to say much more in condemnation than in approval of the salvors' conduct. But it is probable that the sins of one errant crew easily provoked greater comment than the righteousness of a dozen others. At any rate there were redeeming features and individuals, which deserved an equal prominence with those of other kinds. The business was not an unmixed mass of deviltry, and for its worst faults the so-called salvors were not themselves wholly responsible.

[1] *Loc. cit.*, p. 45 and *Bahama Herald*, Mar. 16, 1853.

[2] *Cf.* e. g. Desp. of Colebrooke to Aberdeen, no. 62 (1835), House Votes, 1858, app., pp. 39–40, 42 and 44, and 1866, p. 123, and Accts. and Papers of Parl., 1857–58, vol. xl, p. 24, and 1860, vol. xliv, p. 13.

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There were honest, self-respecting wreckers, true salvors, who had due regard for the property rights of absent persons and kept themselves generally within the bounds of propriety and regularity.[1] Unfortunately abroad these were not distinguished from the malefactors. But on the part of both there were many acts of daring performed in the midst of difficulties and dangers. They not uncommonly forgot self, sustained personal injuries and material losses,[2] and sometimes failed to recover anything to indemnify themselves. Of course they were out to try to make money, but that did not prevent them from rescuing endangered human beings before they turned to saving property.[3] And foreign testimonials to examples of creditable conduct were not altogether lacking. In 1851 a Bahama wrecking captain received the silver medal of the Royal National Institute for the Preservation of Lives from Shipwreck and the Queen's commendation for courage and generosity shown at a wreck.[4] It was also probably the desire for well-doing that led some salvors to inform outsiders about the offences of others and to support the efforts of the chamber of commerce to secure the prosecution of offenders.[5] To men of good character it was a misfortune that their occupation should have been made indictable by the scandalous conduct of their fellows.

Wrecking, when it was truly salving, was in every particular laudable. Salving, when it was perverted into wrecking, became a vicious system. As already shown, the average individual engaged in the industry was not of a high type; and although

[1] House Votes, 1857, p. 5, and 1858, app., pp. 5 and 19, and court decree in case of the Yumaculado (1860).

[2] *Bahama Herald*, June 28, and Oct. 9 and 26, 1858.

[3] This statement rests partly upon inference and oral tradition. But *cf.* Statutes of 11 Vic., cap. 24, and 21 Vic., cap. 1, and on the early Key West salvors, *Merchants' Magazine*, vol. 6, p. 350.

[4] Government notice in *Nassau Guardian*, Sept. 10, 1853. *Cf. Bahama Herald*, Jan. 15 and 22, 1851, and Accts. and Papers of Parl., 1862, vol. xxxvi, pp. 21–22. The last cited gives account of the stranding of a slaver with 389 negroes at Abaco in 1860. The wreckers who discovered the plight of the ship-master declined repeated offers of bribes to induce them to carry the cargo to Cuba for the owners.

[5] Court decree in case of the Saxon (1857), and *Bahama Herald*, May 21, and June 28, 1856.

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not all the charges against his tribe are to be credited, his brethren too often committed gross and wilful misdeeds. Governor Bayley indicted their system as "a most vicious one, tainted . . . throughout with bad faith, treachery and conspiracy."[1]

As regarded the safety of merchantmen, they had a peculiarly Bahamian point of view. When asked to do so, no doubt they gave the proper sort of directions to some mariners who were unacquainted with particular points of danger. But, although they may not have been guilty of displaying false beacons, they had their own ideas as to where their own interest lay. And in notable instances their eagerness for salvages triumphed over all better impulses. For instance, right principles required that, unless a stranded vessel was so injured as to be unseaworthy, efforts should be made to haul it off to deeper water, where it could itself again be navigated. But in such cases salvage rates were comparatively low, while enhanced peril to the ship, or multiplied damage, which blundering tactics and wilful errors could make sure of, would give obvious advantages to the operators. On one occasion the mysterious snapping, preceded perhaps by a slashing, of a hawser accomplished the object.[2]

Again, in handling cargo small articles of greater value were preferred to bulky ones of smaller value. Values could not be guessed without knowledge of contents of barrels, boxes and wrappings. To some individuals the unnecessary breaking of packages was contrary to right, and after 1848 it was prohibited by law.[3]

But this was not a bar to all. Hence rifling of packages and strewing of contents about the decks, although savoring of plundering, were not beyond the range of license inherited by

[1] House Votes, 1858, p. 47.

[2] Court decree in case of the Saxon (1857), and review of the same in the *Nassau Guardian*, July 22, 1857. *Cf.* also the article entitled "Wrecks, Wrecking, Wreckers and Wreckees on the Florida Reef" in *Merchants' Magazine*, vol. vi, pp. 349–54. On pp. 350–51 of the last is described the manner of destroying vessels, whose rescue could have been effected by honestly directed efforts. If other devices failed, a lightening of the cargo, as if to move the ship off the bar, might allow each succeeding "sea" to drive it in the contrary direction, until it was "bilged."

[3] Statute of 11 Vic., cap. 24, and *Bahama Herald*, Mar. 16, 1853.

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these uncensored salvors. That they took small articles without account was admitted,[1] but the extent to which either this was done or to which goods, especially derelict and droghed stuff, were not delivered at port for regular process was known only to the parties guilty of so doing.[2] Finally the firing of hulks for reasons not satisfactory to the vice-admiralty court[3] seemed a relapse to the depredations of former generations.

The practices so far mentioned were such as might have obtained in any case of wreck. That now to be mentioned concerned an agency that produced wrecks. Navigation in the Bahama waters was not so hazardous as unexplained facts and figures alone would indicate. For conditions were such as to render plausible the plea that the voluntary disaster was an inevitable one and to make collusive wrecking the great evil of the whole system.[4] Agreements were formed between trusted captains and "salvors" of the Bahamas as a result of which the fortunes of absent third parties were cast upon the rocks, in order that the agreeing parties might share between themselves the spoil gathered up from the ruin. Just how far collusion prevailed was not known, but it is certain that it was practiced with considerable success. Ship-masters virtually consigned themselves, their ships and cargoes to the care of the wreckers, sometimes pushing hard bargains for their own shares in the loot.[5] In one instance those implicated became so bold as to attempt to justify themselves in open court.[6] Some cases were laid open in the courts, though certainly many less than resolute grand

[1] *Bahama Herald*, Mar. 16, 1853, and Jan. 22, 1854; *Royal Gazette*, Feb. 6, 1830, and House Votes, 1866, p. 5. In the Blue Book report for 1849 Governor Gregory had referred to the "new code of stringent regulations" as compelling the salvors to "deliver every article they pick up to the proper authorities, and preventing those frightful scenes of pillage and disorder, which tended to demoralize the whole community." His gratulation was, however, unfounded.

[2] *Cf.* court decrees in cases of the Saxon (1857), Liberty (1860), Marion (1863), Conquest (1866), Undine (1869), Desp. of Cockburn to Glenelg, nos. 114 (1838) and 19 (1839); *Royal Gazette*, Feb. 6, 1830, and Statutes of 11 Vic., cap. 24 and 21 Vic., cap. 1, secs. 21 and 33.

[3] Court decrees in cases of the Saxon (1857), E. M. Haley (1862), and Marion (1863), and Statute of 11 Vic., cap. 24.

[4] House Votes, 1858, app., pp. 5 and 41.

[5] House Votes, 1857, pp. 24 and 33–34.

[6] *Loc. cit.*, p. 24.

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juries could have unearthed. In view of local traditions and contemporary documents [1] it must be concluded that collusion figured prominently in the remarkable increase in casualties and in supplying the salved goods that bulked so large in the local markets.[2]

The immediate causes of collusive wrecking are not difficult to fathom. The industry that gave rise to it was fortuitous in that its success was conditioned upon the misfortunes of those whose good fortune was vital to world economic interests, and that its hard times came when all was right with the concerns of others.[3] If the elements failed to provide a sufficiency of wrecks, business had to be created. But in order to accomplish this purpose, the coöperation of outside parties was necessary. For deliberate wrecking, then, the "salvors" could not have been solely accountable. The question of apportionment of responsibility between parties was frequently raised at Nassau, where it was said that many of the passing ship-captains, particularly the Americans, were utterly unworthy of the confidence reposed in them by the shipping companies.[4]

The people of Nassau, who composed the most enlightened, and politically the dominant, community of the colony, were lukewarm towards interfering with their salvors. There is no doubt that Nassau had knowledge of what was going on, because,

[1] E. g. House Votes, 1857, pp. 5, 27–28 and 33–34, and court decree in the case of the Carrie Sandford (1861), of whose captain the court said: "Can anything be more improbable than that Captain———unless he wished purposely to wreck his vessel, would in broad day-light, seeing the land before him, have run his vessel before the wind on to those reefs?" *Cf.* also *Bahama Herald*, May 21 and June 28, 1856, *Nassau Guardian*, Aug. 15, 1857, and Accts. and Papers of Parl., 1857–58, vol. xl, pp. 23–24, and 1860, vol. xliv, p. 13.

[2] *Cf. Merchants' Magazine*, vol. xliv, p. 54, and House Votes, 1857, p. 24.

[3] Accts. and Papers of Parl., 1866, vol. xlix, p. 48.

[4] E. g. House Votes, 1857, p. 23, and 1858, p. 4, and app., p. 40; *Bahama Herald*, June 28, 1856, *Nassau Guardian*, Aug. 15, 1857, and *Cf. New York Journal of Commerce*, July 22, 1857. Many of the guilty were Americans, probably because so great a proportion of the commerce passing was carried in American bottoms. It is interesting that these English colonists, many of them children of exiled American loyalists, should have so emphasized American culpability. *Cf.* also Accts. and Papers of Parl., 1857–58, vol. xl, pp. 23–24, and 1860, vol. xliv, p. 13, wherein an English governor joins in practically the same vein.

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although the principal wrecking-grounds were outside its geographical horizon, its commercial men investigated and adjusted claims, and as owners of salving vessels could hardly not have known how the work by which they were themselves profiting was being carried on. It may well be thought that the people of Nassau would have frowned upon, and the colonial authorities have punished, the guilty, until the evil doings had been broken up. Indeed the news-press admitted and mildly denounced the criminal wreckers, expressed regret at the colonials' part in the shameful transactions, declared that their crimes deserved punishment,[1] and in one instance put it that the interests of the colony would be best subserved by the complete abolition of the system.[2] Private persons, too, took some part in bringing offenders to justice. Salvors sometimes informed on erring brethren, and in 1856 the chamber of commerce advertised a reward of £50 for evidence that would lead to the conviction of guilty parties.[3] But it was much more pleasing to the native mind to look at the other side. Community pride argued for this, and the community profited by the business some tens of thousands per annum. Moreover the colony had once had a commerce of more than £550,000, and its leanness since the good days had passed made its citizens loath to tamper with any enterprise that had helped to renew the appearance of prosperity. So while there was ostensible chastisement with one hand, there was clemency with the other—and salvors knew which hand was oftener extended to them. The local press lauded the humane and economic service of the business,[4] and men sought to extenuate the guilt of insular criminals by the transparent declaration that foreign ship-masters were the chief offenders.[5] For all reasons combined it was found impossible

[1] *Bahama Herald*, Jan. 22, 1851, Mar. 6 and 15, 1853, and Nov. 24, 1855.

[2] *Loc. cit.*, June 28, 1856. The admission implied in this editorial is significant. If the wrecks were accidental, there was nothing for which to express contrition.

[3] *Loc. cit.*

[4] E. g. *Bahama Herald*, Jan. 22, 1851, and Nov. 24, 1855, and *Nassau Guardian*, Aug. 15, 1857. *Cf.* also *Royal Gazette*, Feb. 6, 1830, on the earlier period.

[5] House Votes, 1857, p. 23, and Accts. and Papers of Parl., 1860, vol. xliv, p. 13. The official utterances here referred to were rather reflections, than direct expressions, of the view stated in the text.

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to induce citizen juries to convict salvors for collusion "except under circumstances of very rare occurrence and very peculiar character."[1] Considering all, it can be said that the hope of immunity exceeded the fear of having to account to the public authorities, that encouragement rather than discouragement was lent to those who were weak in the face of temptation, and that a wide door was open for the commission of any excess that occasion might suggest.

III

These casualties resulted in bringing into the Bahamas considerable quantities of valuable goods. In 1840 it was reported that salved goods had filled the small warehousing space at Nassau.[2] Infraction of the imperial laws of trade by the illicit disposal of goods so imported incited Governor Francis Cockburn to protest to London against the laxity in the customs department.[3] But wrecking did not grow great until after the change in the navigation laws. For the year 1852, however, the imports due to wrecks were valued in customs at £46,515, a third of the total imports for the year, and nearly three times the corresponding figure for 1850.[4] Again they were doubled by 1856, reaching a total of $96,304, or 50.8 per cent of the imports for that year. Reference to the table shows fluctuations mostly downward, until a new high mark was reached at £103,890 in 1860, or 43 per cent of the imports for that year, and for the five-year period ending that year 40.5 per cent of all the imports.[5] But in the following year the disturbance of

[1] House Votes, 1858, app., p. 50, and 1857, p. 24, and *cf.* statute of 11 Vic., cap. 24, sec. 9. In a Blue Book report Governor Bayley wrote: "while foreign shipmasters and native wreckers have a mutual understanding and both are supported by colonial jurors. . . " Accts. and Papers of Parl., 1860, vol. xliv, p. 13.

[2] House Votes, 1840, p. 126.

[3] Desp. to Glenelg, no. 19 (1839). *Cf. loc. cit.*, no. 108 (1838).

[4] Accts. and Papers of Parl., 1852–53, vol. lxii, p. 45. The amount £16,768, if correct for the imports of wrecked goods for 1850, probably represents a low point in fluctuations in quantity.

[5] With this compare the account of wrecking in the islands given in the *Merchants' Magazine*, vol. xliv, p. 53. There it is stated that sixteen vessels ranging from 145 tons to 1000 tons each were wrecked in the interval, that their aggregate tonnage

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the American Civil War with its blockade-running and unprecedented business activity for Nassau effected a reduction which held on, until in 1865 the imports of salved goods amounted to but 27.2 per cent of those of 1860.[1] Now, although there was an apparent return to a normal course of development in that 32 per cent and 30.3 per cent of all imports to the colony arose from this source in 1866 and 1867 respectively, and in the culmination at 54 per cent in 1870, it appears that the diversion of energy from salving by the American war was one of the causes of the decline of the salving business, and as such it is to be later treated.[2] After 1870 occurred first a rapid, then a gradual, decline, until within two decades the annual return of imports of salved goods became a mere nominal figure in the lists. For 1896 but £2164 were reported, and for 1903 only £94. Until a new balance between imports and exports had been reached there was likewise in both their columns a sensible decline, which finds its explanation in the change just noted.[3]

Salved goods paid duty in customs, thereby contributing materially to the public revenues,[4] and after adjudication reëntered the channels of trade. As they frequently sold at a low figure, such parts of them as found local demand contributed to the support of the people at small cost to themselves. In 1838–40 the local market had been glutted and merchants'

was 5150 tons, that the aggregate value of vessels, cargoes and freights was $700,000, of which $475,000 was sacrificed, $125,000 appropriated to the salvors, and a pittance of $100,000, about 14.3 per cent, left to the original owners.

[1] Accts. and Papers of Parl., 1862, vol. xxxvi, p. 19. In this report on the Blue Book Mr. C. R. Nesbitt, administrator, said: "The interruption of commerce . . . and the blockade of the Southern States have paralyzed the avocation of wreckers.'

[2] *Infra*, p. 643. In several reports after that time the governors seemed to treat salving as a declining source of gain. *Cf.* Accts. and Papers of Parl., 1867, vol. xlviii, pp. 32–33, 1867–68, vol. xlviii, pp. 31–32, 1868–69, vol. xliii, p. 41. But in the report for 1869, *loc. cit.*, 1871, vol. xlvii, p. 56, a doubt was expressed.

[3] *Loc. cit.*, 1874, vol. xliv, p. 66.

[4] In 1850 the customs rate was 15 per cent *ad valorem* on valuation ascertained at auction sale. Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146. In 1857, it was said, a fourth of the revenues came from this source. House Votes, 1857, pp. 25–26. *Cf. Nassau Guardian*, Aug. 15, 1857, and *New York Journal of Commerce*, July 22, 1857. Also Accts. and Papers of Parl., 1866, vol. xlix, p. 51.

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TABLE SHOWING IMPORTATIONS OF SALVED GOODS

	IMPORTS		EXPORTS			LICENSEES	
	TOTAL	FROM WRECKS	TOTAL	NATIVE PRODUCTS	OF IMPORTS	MEN	VESSELS
1822	£172,500	. . . .	£217,600				
1823	251,975	. . . .	217,659				
1824	339,142	. . . .	317,407				
1825	302,878	. . . .	233,845				
1826	352,074	. . . .	145,305				
1827	231,384	. . . .	129,393				
1828	338,700	. . . .	122,472				
1829	97,150	. . . .	76,977				
1830	137,853	. . . .	50,158				
1840	123,773	. . . .	84,099				
1844	166,741	. . . .					
1845	144,074	. . . .					
1846	119,325	. . . .	68,953				
1847	146,385	. .	87,575	£45,814	£42,561		
1848	115,503[1]	. . . .	78,892	15,087[1]	31,934		
1849	117,697	. . . .	70,284	30,776	39,508		
1850	92,756	£16,768	37,921[2]	37,921			
1852	139,563	46,515	39,638[2]	39,638			
1853	131,007	. . . .	78,403				
1854	131,995	. . . .	69,502	39,727	29,775		
1855	192,751	. . . .	111,670	50,098	61,572		
1856	189,398	96,304	. . . . .	36,000	. . . . .	2679	302
1857	211,423	87,573	140,195	52,000	88,195		
1858	190,523	64,509	92,195	39,200[3]	52,995		
1859	213,166	69,811	141,896				
1860	234,029	102,890	157,350	60,997	96,353		
1861	274,584	66,519	195,584	64,537	131,047		
1862	1,250,322	49,178	1,007,755				
1863	4,295,316	50,666	3,368,567				
1864	5,346,112	51,414	4,672,398	62,478	4,609,920		
1865	1,470,467	28,017	2,073,474	77,070	1,996,404	1045	230
1866	328,622	107,660	261,976	77,604	184,372	1502	161
1867	365,316	110,634	227,248	71,117	156,131	1049	126
1868	231,526	34,404[4]	131,522	80,146	51,376	836	87
1869	240,584	46,068[4]	163,002	77,999	85,003	651	70
1870	283,970	153,539	190,253	60,231	130,022		
1871	239,190	65,043	152,410	82,677	69,733		
1872	201,051	. . . .	136,224	86,615	49,609		
1873	226,306	. . . .	156,613	111,268	45,345		
1874	183,993	. . . .	130,292	86,351	43,941		
1875	165,970	30,353	102,214	79,571	22,643		
1876	153,689	. . . .	106,836	80,875	25,961		
1880	. . . . .	25,714					
1885	. . . . .	33,913					
1890	. . . . .	1,870					
1891	. . . . .	9,464					
1896	. . . . .	2,164					
1900	. . . . .	2,637					
1903	. . . . .	94					

[1] Possibly erroneous. [2] Probably does not include reëxportation of imported things.
[3] Includes only fruit and sponge products.
[4] Labeled in Blue Book "Wrecks only."

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orders on England cut down by the influx of wrecked stuff.[1] A decade later wrecks had become so common that "prices of almost all produce and manufactured goods are [were] perpetually undergoing the most extraordinary fluctuations, from famine to a glut, owing to the masses of shipwrecked property which pour in upon the market and entirely frustrate the calculations of the regular importer."[2] But in a few years, as business developed, new ways of disposing of such surpluses were discovered. The Blue Book report indicates that more than £30,000 value of wrecked goods were exported in 1853, a year when the total exports amounted to £78,403,[3] whereas a previous report had relegated all exports of 1850 and 1852 to the column of native produce.[4] The total exports climbed rapidly to twice their average for the years 1846–50, while those of native products increased less than 40 per cent by 1860. Cotton which was not, and since the days of slavery had not been, much grown in the islands became prominent as an export.[5] The profits on the exportation of things purchased at wreck sales were larger and surer than those of salving. An unprecedented impetus to trading resulted. The profits were partly speculative, and hence there developed a mania for buying not unlike the salvors' mania for salving. At the "Vendue House" on the wharf, wrote a governor, "there are the retail traders to be seen in great numbers almost every day, bidding for cases and packages whose contents are often only guessed at, and which have been thrown upon the Bahama shores, or picked up by the numerous wreckers.[6] Reference to the table on page 637

[1] Desps. of Cockburn to Glenelg, nos. 108 (1838) and 19 (1839).

[2] Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146.

[3] Accts. and Papers of Parl., 1854–55, vol. xxxvi, p. 48.

[4] *Loc. cit.*, 1852–53, vol. lxii, p. 45. There may, however, be a slight error in the report. Its meaning for present purposes is perhaps that the exports of salved stuff had never before figured so prominently in the lists. The table on page 637, *supra*, shows considerable exports of foreign produce for 1848 and 1849.

[5] Accts. and Papers of Parl., 1857, vol. x, p. 75. *Cf.* also *loc. cit.*, 1850, vol. xxxvi, p. 146, 1856, vol. xlii, p. 40.

[6] Accts. and Papers of Parl., 1850, vol. xxxvi, p. 146. *Cf.* also House Votes, 1857, p. 25, *Bahama Herald*, Mar. 31, 1855, and Desp. of Colbrooke to Aberdeen, no. 62 (1835).

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shows that in two decades, 1850–70 (omitting the extraordinary period, 1861–65), much more than half, and in 1867–70 more than three-fourths, of the exports of the colony were other than native products. Some of these were goods entered in ordinary commerce and re-exported; the rest were salved goods.

A satisfactory estimate of the profits realized by the trade in salved goods would be difficult to reach. But since the number of persons engaged in it was small, and their dependence upon the returns therefrom less immediate than that of the salvors upon salvage, the problems of their gains will be passed over for that of the wages of those who lived by the trade. Wrecking deserves to be classed with gold-hunting. Governor Rawson called it "a lottery in which the blanks far exceed the prizes, and in which the prizes too often bring only a redemption from debts incurred during the unprofitable wasted months of vain expectation."[1] Rich prizes there were. The salvors' shares in four cases in 1864 amounted to £11,304 1s. 6d., or £2826 per vessel salved. In September, 1865, an American steamer was pulled off a shoal: £5840 3s. was granted as salvage, of which the owners of the wrecking vessels received £1826 14s. 4d., and out of the residue the common seamen received £17 11s. 5d. each.[2] Again, thirty reported cases, including those of two large vessels, afforded as salvage £38,016, an average of £1267 per vessel.[3] The earnings from one vessel appear from the following:

> The earnings of a vessel engaged to windward, for a considerable part of . . . five years, and in which thirteen or fourteen men were continuously employed, gave for the share of the men for the five years only $3440 or $264 per annum. This, taking the time employed, and allowing twenty-four working days in the month, gave an average of $4.41 per month, or only 18 cents a day.[4]

Assuming that the average rates of salvage were 50 per cent and 40 per cent of the customs' showing of salved goods for

[1] House Votes, 1866, p. 205.

[2] Accts. and Papers of Parl., 1866, vol. xlix, p. 51. The figures are quoted, not based upon the present writer's calculations.

[3] *Loc. cit.*, 1868–69, vol. xliii, p. 41. [4] *Nassau Guardian*, Sept. 15, 1866.

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the respective periods, a rough estimate of the annual earnings per individual salvor engaged during two five-year intervals yields the following results:

1856	£18.	1865	£10 4s.
1857	£17 10s.	1866	£28 13s.
1858	£16 2s.	1867	£42 4s.
1859	£17 3s.	1868	£16 9s.
1860	£17 3s.	1869	£28 6s.[1]

Deducting in each case the one-third due to the vessel-owner and making other corrections, it would seem that the final wages of the common seaman were quite fluctuable, that they were below those of the common laborer on land and were insufficient for the support of a family, and that in fine the industry was lacking a wage basis that could justify a bread-winner's embarking in it.

Abuses and delusive prospects to individuals have been enough emphasized. A few words need to be said about the baneful economic consequences of salving. As for the people, their engaging in it was in the first instance a consequence rather of "physical laws than of moral and social disorganization. . . . Wrecking threw itself in their way as a natural, obvious and in many cases a necessary resource."[2] When times pressed a little hard, agriculturists, mechanics, tradesmen, household servants, men engaged in every species of substantial manual labor alike responded to the impulse to "embark in this bad lottery."[3] In 1848-56 the numbers so employed increased

[1] In the case of the first period the divisor number of salvors was varied somewhat according to the magnitude of the value of the imports from wrecks, since the numbers except for the year 1856 are not at command. Other corrections are needed for exactness on account of (1) the amounts of goods not returned at the ports of the colony, (2) because rates of salvage were not uniform, (3) because of the deductions to be made on account of the shares of the owners of vessels, of legal fees, arbitral fees and court costs, and (4) because in the later period the divisor numbers as given in the Blue Book reports show only licensed persons, whereas it is probable that unlicensed persons also participated in the work. See, however, Statute of 29 Vic., cap. 16, excluding landsmen from employment as wreckers.

[2] Desp. of Governor Bayley, no. 5 (1857).

[3] House Votes, 1857, pp. 23-24. *Cf.* also *loc. cit.*, 1858, app., pp. 30-31, and Accts. and Papers of Parl., 1860, vol. xliv, pp. 12-13.

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from about 400 to 2679 men out of a total population of 30,000,[1] the number of vessels from forty or fifty to three hundred and two. It was a blind rush, but its folly was not patent. It did, however, seriously hamper the course of internal economic development. The diverted energy was employed in an enterprise in which, no matter what the effort or the outlay, no enduring foundations were being laid for an abiding, communal economic life, and from which no cumulative results of long-drawn-out processes could be expected. Once commerce became freed from the menace of wreck, not only the foundations but every vestige of the salving industry would vanish into thin air.

IV

Although salving had long been marked by abuses, very little had been done toward their correction. Just at the time when slavery was being abolished, two successive governors reported to London about them, and the later of the two recommended that every case of wreck ought to be referred to the vice-admiralty court.[2] It was after they had left the government, however, that the first serious attempt was made to regulate the salvors by act of assembly. In 1848 an act was passed including several salutary provisions, enjoining upon salvors good conduct and accountability to their wreck-masters and to the masters of wrecked vessels, and requiring the licensing and bonding of salving vessels.[3] During the following decade the rapid increase in number of casualties aroused in several different commercial countries a tremendous protest and a demand that steps should be taken by the colony to check collusive wrecking.[4] For more than a decade each succeeding governor

[1] The population of the colony in 1851 was 27,519; in 1861, 35,287. Accts. and Papers of Parl., 1862, vol. xxxvi, p. 21. On the numbers engaged see *loc. cit.*, 1857–58, vol. xl, pp. 23–24, *Merchants' Magazine*, vol. xliv, p. 53, and House Votes, 1857, pp. 23–24.

[2] Desp. of Colebrooke to Aberdeen, no. 62 (1835), and Cockburn to Glenelg, nos. 114 (1838) and 19 (1839).

[3] Statute of 11 Vic., cap. 24.

[4] House Votes, 1857, p. 86, and 1858, app., pp. 19 and 39, *Bahama Herald*, Jan. 22, 1851, and Nov. 24, 1854, and *Nassau Guardian*, May 24, 1852.

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attempted to get effective action. But the colonial assemblymen were opposed to the enactment of the very kind of measures that promised to be effective, if enacted.[1] They passed amendments to impose greater nominal responsibility upon wreck-masters, and to check the over-crowding of the crews of salving vessels,[2] and in 1858 collected into one statute, called the "Licensed Vessels Act, 1858," the whole body of colonial enactment on the subject.[3] The additions made in this instance, however, still failed to include the vital provision for enforcing the observance of the nominal restrictions. But persistence on the part of the executive finally found its reward in that in the period when the colony was prospering by blockade-running to the Confederate ports, the legislature authorized investigation by commission into every case of wreck.[4] Further restrictions upon the employment of persons, upon the use of open boats and small boats and upon the vital function of wreck-master[5] finally went far to make the body of law a competent remedial code. Later acts had but the minor effect of accelerating the operation of forces already working for the reduction of the number of wrecks, and hence for the decline of salving, to which attention is next to be directed.

The decline of salving, like its prosperity, was due to factors which were neither wholly internal nor wholly external. There is no doubt that the enforcement of the salvage laws, although imperfect, contributed to that decline. The restriction upon licensing small boats helped to close a door to petty evils.[6]

[1] Desps. of Cockburn to Glenelg, nos. 19 (1839) and 114 (1838), and House Votes, 1857, pp. 29 and 34–35.

[2] Statute of 16 Vic., cap. 1, and 18 Vic., Cap. 17.

[3] *Loc. cit.* 21 Vic., cap. 1, especially secs. 1, 5, 21, 33 and 46.

[4] Statute of 28 Vic., cap. 14.

[5] Statute of 29 Vic., cap. 16. In urging enactment of this measure the governor had expressed a desire to confine salving "as much as possible to a class who, by making it their habitual occupation, would find a more profitable and respectable livelihood in salvage legitimately earned . . . than from participating in, or shutting their eyes to, acts of waste and plunder, as now too frequently practiced." House Votes, 1866, p. 5. For later legislation see Statutes of 33 Vic., cap. 4, 37 Vic., cap. 9, and 41 Vic., cap. 6.

[6] Accts. and Papers of Parl., 1867–68, vol. xlviii, p. 38.

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But it was more particularly the restrictions upon wreck-masters and the scrutiny of the business that told effectively. In the case of the former the weeding-out of incompetents and the centralization of authority and responsibility appeared to have checked reckless and unsystematic work without authority from those who were accountable. In the case of the latter the obstruction to reform raised by those who, without themselves practicing the excesses nevertheless profited by them, was in great part removed. Resolute executives no longer had their hands tied, when they desired to elicit facts. Thus, whatever the law accomplished in curbing fraudulent practices tended to reduce to lower terms the illegitimate part of the industry.

The sole action of other powerful causes, however, even without the aid of legislation would probably have effected the decline about as early as it occurred. (1) The extraordinary situation produced by the blockade-running during the American civil war "reduced the number of wrecks on the shores of the Colony, and the employment offered at Nassau to the population led to their diversion from the occupation of wrecking."[1] Although the readjustments following that period witnessed a temporary return to former conditions, the people had at least learned a lesson in livelihood earned in other fields. At the same time too, still other interests were developing. (2) The colonial government had never abandoned its earlier program of encouraging agriculture, and throughout had labored untiringly to induce the people to substitute cultivation of the soil for their precarious seamanship. The increase in the exports of native products, as shown in the table on page 637, bears witness that these efforts were not without fruit.[2] (3) But an increasing proportion of these exports arose from another source. The decline of salving was contemporaneous with the rise of the sponge industry. Now sponging was also an occupation that afforded opportunity to indulge in the life the Bahamian loved, and was honorable and reliable withal. In the evolution of

[1] House Votes, 1866, p. 123.

[2] *Cf.* House Votes, 1866 p. 123, and Accts. and Papers of Parl., 1866 vol. xxli, p. 48, and 1867–68 vol. xlviii, p. 32.

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more orderly forms of activity it was a logical successor to salving. The dwindling of the one and the growth of the other are shown in the following table:

	IMPORTS FROM WRECKS	SPONGE PRODUCTS		IMPORTS FROM WRECKS	SPONGE PRODUCTS
1865	28,017	20,690	1880	25,714	34,665
1869	46,068	24,917	1885	33,913	52,474
1870	153,539	14,104	1890	1,870	63,099
1875	30,353	15,586	1896	2,164	81,091

At the same time with these internal conditions changes were taking place outside the Bahamas that tended to the same end. (4) In the first place improvements in the mechanical means of transportation left ships far less at the mercy of the elements than of old. (5) Secondly, the increase in the carrying capacity of vessels meant greater losses per case of wreck. Hence additional precautions for safety were taken by the shipping companies, notable among which was the check against the phenomenon of the dishonest captain. (6) Further security was added by the charting of shoals and reefs and the emplacement of lights and beacons (also charted) at points where danger impended. All told, the combined work of courts and commissions, of unseen industrial forces, of inventors and geographers, of underwriters, shippers and carriers and of the Elder Brethern of Trinity House went far towards surmounting the difficulties that were the "terror of 'navigators' but not of 'wreckers'" in the waters of the Bahamas.[1]

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[1] Accts. and Papers of Parl., 1850, vol. xxxvi, p. 144.

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SCHUMPETER'S DYNAMIC ECONOMICS[1]

JOSEPH SCHUMPETER needs no introduction to American economists, who will expect that anything he writes will be characterized by clarity, subtle and incisive analysis, originality, and a tremendous grasp of the literature of the topic treated. The present book in every way realizes these expectations. Originality, often of a highly dramatic character, is especially marked, the impression of originality being heightened by the somewhat unusual way of setting problems and by certain novelties in terminology, as in the definition of capital. Much of the originality, too, is of a destructive character: Professor Schumpeter feels it necessary not merely to make a constructive contribution but also to give an *exclusive* theory at many points where his doctrine does not necessarily antagonize existing views, and where he might well be content to develop a complementary, rather than a rival, interpretation. It is to this feature of his book that most of the reviewer's dissent is to be attributed. The reviewer makes no plea for an amiable eclecticism. Some theories necessarily exclude others. Some views are really wrong, and some are really right. Not everything can be reconciled with everything else. But Schumpeter has gone far out of his way in the effort to get rid of possible rivals; has expended—and, in the reviewer's judgment, wasted—a great deal of energy and dialectical acumen in assailing impregnable positions.

We have here a book on the theory of economic evolution which frankly dispenses with the necessity of historical verification. The theory is right "*wie immer die Sache historisch stehen mag*" (page 198. See also pages 122, 190, 392 and 466). What is history between theorists! The reviewer sympathizes with this viewpoint in part: it is one thing to trace a set of concrete occurrences; it is another thing to work out causal relations in the abstract, on the assumption that the general situation, apart from the factors you are studying, is constant. Schumpeter is simply applying to the problem of economic evolution the method of abstraction that the economist has been accustomed to apply to the problem of value and prices. The reviewer's objections to the way in which Schumpeter uses this abstract method will be later indicated.

[1] *Theorie der wirtschaftlichen Entwicklung.* By JOSEPH SCHUMPETER. Leipzig, Duncker and Humblot, 1912.—viii, 548 pp.

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We have, further, a book on evolution which makes no mention of Darwin or Spencer, and no use of their principles of explanation: neither differentiation and integration nor competition and survival are emphasized. At first blush, Schumpeter's theory suggests Gabrielle Tarde: the rôle of the innovator is stressed, and his influence in bringing the rest of the society into harmony with his plans. But closer examination shows that suggestion and imitation (of the non-rational sort) do not assist the innovator in Schumpeter's scheme. The non-rational factors stressed are those of custom and inertia, the *resistance* of the mass to the new. Tarde's custom-imitation, but not his mode-imitation, is used—though the task of explanation would be much easier if both were recognized. The exclusion of mode-imitation is doubtless to be explained by Schumpeter's desire to give a "pure economic" theory, a theory which makes use of only "economic" factors in explanation. To this limitation much of the artificial character of Schumpeter's reasoning is due. The precise limitations of the "pure economic" in his scheme are not clear to the reviewer, but, in general, no injustice is done Professor Schumpeter's conception when it is stated that the central theme of his "statics" is marginal utility, and the central theme of his "dynamics" is enterprise, and that his economics is "purest" when these factors are doing the work. He refuses to treat, as economic evolution, changes in the economic situation growing out of the social *milieu* (page 473). It is doubtless legitimate—though hardly fruitful—abstraction to neglect changes *originating* outside the economic sphere; but to neglect the *interactions* of the economic and the non-economic factors in the process of economic evolution, to let economic evolution run in a water-tight channel, not to say a vacuum, seems to the reviewer quite vicious. It is perhaps due to the same methodological considerations—though not, of course, necessarily—that Schumpeter does not see in private property, competition and the division of labor, factors in economic evolution. The division of labor is spoken of as a *soziale Tatsache* (perhaps not as distinguished from "economic," page 95), and private property (a legal rather than "pure economic" fact) is conceived of as a positive hindrance to the march of economic enterprise (page 351). Interest has to be paid to rescue economic evolution from private property! The expansion and multiplication of human wants, the growth of population, the accumulation of savings, are all either ruled out or minimized (page 474 ff.).

One of the author's reasons for ruling out factors of this nature involves an extraordinary sort of fallacy: he objects to using them as explanations of economic evolution because they are themselves the product

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of economic and other social evolution, and therefore such use of them as explanations involves a *petitio principii*—an explanation of evolution by what evolution has itself produced (pages 484, 485, 119.)! Two criticisms are at once suggested here. First, that social evolution at large, and not exclusively economic evolution, lies behind (or rather, partly consists of) these factors; second, and really fundamental, that evolution is not a simple entity, to be capitalized and hypostatized, to be treated as a cause or an effect, but is rather a name for a vast totality of occurrences, among which individually the relations of cause and effect exist; that evolution is not to be explained at large, but, *within itself*, in parts; that the normal and proper method of evolutionary explanation is to develop each new stage out of the preceding stage; that, indeed, "evolution" is primarily a name for a method of study, a method which has been necessary and fruitful just because the present does grow out of the past. It should be noticed, too, that Schumpeter's own theory is itself guilty of the *petitio principii*, if such it be, for his modern entrepreneur, with his use of modern dynamic credit, is surely a product of economic evolution.

Schumpeter's justification of the sharp separation of economic and other evolution rests not merely in methodological considerations, however. He is convinced that *in fact* the *leaders* in each kind of social development are different people (the inert masses, who share in all phases of social life, do not count), and that consequently the different aspects of social life—economic, political, artistic, scientific—move independently, without common stimulus being necessary (page 546). It may be noted that this differentiation, to the extent that it exists, has been long in developing and is far from complete, and that the most noteworthy periods of social development—the Renaissance and Reformation, Elizabethan England, the Romantic Movement, and the period from 1871 to 1914 in modern Germany—have been periods when many phases of social life were responding to common stimuli, centering around the same personalities and mutually energizing one another.

It should be clear from the foregoing that no balanced view of social evolution, indeed, no quantitative evaluation of the factors in economic evolution, can be expected from Schumpeter. What we get, rather, is an account, beautifully worked out, of one selected set of factors. Perhaps we can ask no more. At all events, Schumpeter is entitled to be heard on his own terms. And his method has at least the advantage of lessening the strain on attention, and keeping to a straight and narrow path. On the other hand, artificial problems arise from it.

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Schumpeter has a well-trained static state, and he rides it with a cruel spur. In fact, he has *two* static states, which go in opposite directions sometimes, and the effort to ride both at once would occasion disaster to a less skilful rider. As it is, by shifting from one to the other as occasion necessitates, he is able both to create and to solve problems at the slight expense of the logical fallacy of "four terms." The two conceptions are: (1) a hypothetical static state, much like Professor Clark's (except that Schumpeter admits an occasional monopoly to his picture, page 350), where there is frictionless competition in general, perfect mobility, even though no motion, perfect fluidity without flow. It is characterized by thoroughly rational calculation, and by an equilibrium which represents the best possible adjustment from the standpoint of maximizing utilities and minimizing sacrifices. Given certain conditions (enumerated on pages 116 and 464), the numbers and prices of all goods which will be produced and exchanged can be automatically predicted. (2) The other conception is realistic: a stagnant state, ruled by custom and inertia, illustrated by India and China (page 113) and by the handworker, who still thinks and feels as in the Middle Ages (page 111). Here there is neither fluidity nor flow, neither mobility nor motion. When Schumpeter points out that most economic theory has been static theory (pages 91-102)—a contention that is true, even though most writers have allowed themselves much wider range than Schumpeter would assign to static theory—it is clearly the first conception that he has in mind. As Bagehot has pointed out, in his *Postulates of English Political Economy*, it is only the modern world, and that part of the modern world which has come into the "great market," that is described in current theory. In the Middle Ages, and in India and China in very considerable degree, wages, rents and prices are fixed, not by frictionless competition in the market, but by custom and law. There are certain half-concious but inadequate attempts to assimilate the two conceptions (pages 113 and 128), and a passing partial recognition of the discrepancy between them at one point (page 114). But, in general, Schumpeter uses first one then the other, as suits the purpose in hand. In particular, difficulties arise when the problem of economic evolution is taken up (chapter 2). The problem of economic evolution is to get out of the static state, as Schumpeter views it. But clearly it is not the hypothetical static state that we have to get out of—we were never in it! The problem is rather to break the crust of custom and inertia characteristic of the realistic static state. However, Schumpeter finds difficulties confronting the entrepreneur which characterize, not the realistic static state but his own theoretical construction, notably the

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the absence of interest and credit and accumulations of idle money (pages 192, 193, 194, 195, 210, 212). For reasons later to be discussed, Schumpeter contends that there are no interest and credit in the static state, and no accumulations of idle money. But in the realistic static state, notably India, great hoards of gold and silver are accumulated, in both public and private treasuries, and the whole spirit of primitive civilization makes for this, as Walker has shown in his *International Bimetallism*. I may point here to a manufactured difficulty growing out of Schumpeter's effort to give an exclusive theory of interest: since his explanation of interest is a dynamic explanation, and since no other explanation is to be accepted as complementary, he must banish interest from the static state, and so increase the difficulties of his already overburdened entrepreneur!

Schumpeter's static theory of value, though he attributes it to Böhm-Bawerk, really seems to the reviewer essentially different. Böhm-Bawerk undertakes to explain the value (objective value in exchange) of each good by its *own* marginal utility to different individuals, buyers and sellers of that good. He sees at points that the prices of the other goods enter at times, making marginal utility give way to subjective value in exchange, as the determinant of an individual's behavior toward a given good in the market—as in his much-discussed overcoat illustration. But Böhm-Bawerk, as I have pointed out in *Social Value*, never gets out of the circle which this reaction of the market-prices on the individual subjective values involves. Schumpeter seems to rise to a higher conspectus picture, which, in form, avoids the circle. (*Cf.* pages 61 ff, 105, 166-7.) His picture is that of a vast equilibrium,[1] in which, instead of attributing the market value of each good to its own utility, you explain the price of every good by reference to a total situation: given the number of goods of each class, given the number of individuals in the market, given the distribution of these goods among the individuals, given the utility-curves of each good to each individual, an equilibrium is reached, in which ratios between marginal utilities of each kind of good to each individual become inversely proportional to the abstract ratios (market-prices) of the same goods, each measured in its own unit. This scheme, thus stated, says nothing as to the *causal* relation between marginal utility and market prices; it states merely certain *mathematical* relations between each individual system of marginal utilities on the one hand, and the abstract ratios in the market on the

[1] A similar conception is set forth in Irving Fisher's Mathematical Investigation in the Theory of Value and Prices.

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other. By avoiding assertions as to causation it avoids a causal circle. In such a situation, marginal utilities and market ratios are, in reality, alike resultants, effects, of the given quantities of goods, distribution of goods, numbers of buyers and sellers and individual *utility-curves*—not *marginal* utilities. To complete this picture, I should add an element which most economists—Schumpeter notably excluded—would wish to add, namely, the curves showing time-preferences of each individual for each sort of good.

Such a picture, I submit, avoids the circle which I have elsewhere attributed to the Austrian theory of value.[1] I wish, however, to indicate its limitations as a theory of value. (1) Its data are inaccessible: nobody could possibly know all the utility curves and all the time-preference curves of all goods to all individuals in, say, the United States. To explain market ratios by utility curves is a case of *ignotum per ignotius*, so far as practical application is concerned. Moreover, it is a scheme so difficult to visualize that it is useless as a tool of thought—as one will find out who tries to think it through, without the aid of higher mathematics, for ten goods, and ten persons, with unequal distribution of wealth, and different utility curves and time-preference curves for the different individuals. (2) It must assume smooth curves and infinitesimal increments in consumption, which is a fiction so far as the individual psychology is concerned. Without this assumption, the point-for-point correspondence between individual and market ratios does not exist. It is only in the demand and supply curves of the big market, or in social value curves, that you have, as a matter of fact, the right to smooth out your curves. (3) It leaves untouched the vital question which any theory must answer which means to be of practical use in concrete explanations: what are the real *variables* in the situation, and what factors are constant? What causes are *likely* to produce changes in market prices? The individual utility curves, which in Austrian theory are commonly treated as the only variables—in the strict static picture there are no variables at all!—are really, when

[1] Schumpeter does not, however, avoid the Austrian circle, in its most glaring form, in his theory of money (page 72 ff). The "*Preis des Geldes*" rests on "*individuellen Wertschätzungen*," like all other "*Preise.*" But these *individuellen Wertschätzungen*, in the case of money, are, not subjective use-values, but merely subjective values-in-exchange, resting on the prices which the individuals meet in the market! Schumpeter follows a recent article of Wieser's in this—an article which has had a good deal of influence on recent Austrian literature on money: "*Der Geldwert und seine Veränderungen*," in *Schriften des Vereins für Socialpolitik* No. 132, 1909, *Referate zur Tagung.*

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conceived as individual, as growing out of the psychology of each individual separately, the most constant factor in the situation. For, on the principle of the inertia of large numbers, each unit of which is moved by its own peculiar causes, changes in the utility curves of one man will be offset by opposite changes in the utility curves of another, and so the utility curves, as a whole, will remain where they were. Of course if a rich man changes his curve, a poor man's change will not offset it in its effect on the market, but this is to emphasize the distribution of wealth rather than the utility curves. It is only when you get a change of a sort that the individualistic psychology, and the "pure economic" explanation factors, of the Austrians find no place for, that you can predict a change in the general price-system. It is only changes in fashion or mode, in general business confidence, in moral attitude toward this or the other sort of consumption, in the distribution of wealth, changes in taxes and other laws etc.—causes of a general social character—that you can count on to produce important changes in values. Of course, changes in the adequacies of supplies would be taken care of by either interpretation. (4) This scheme does not give a value concept which the economist can use. It gives only ratios between individual marginal utilities and abstract market ratios. It gives no quantitative value, which can be attributed to goods as a quality, a homogeneous quality of wealth by means of which diverse sorts of wealth can be funded etc.[1] Such a concept is, however, necessary for the economic analysis, and Schumpeter is driven to creating substitutes for it of various kinds, notably *Kaufkraft* and *Kapital*. *Kaufkraft*, as Schumpeter uses the term, is not derived from marginal utility, but is an abstraction from the idea of money. It is not a quantity of money alone, nor even of money and credit, but is a fund of "abstract power," which depends not alone on the quantity of money and credit in which it is embodied, but also on the prices of goods (pages 83–84). This *Kaufkraft* is needed to give the "steam," the "motivating power," which the social value concept contains, but which ratios in the market lack. Similarly, *Kapital* is conceived of as an agent, a dynamic force, distinguished from accumulations of productive instruments, by means of which the entrepreneur gets control of land, labor and instrumental goods (chapter 3, part ii). Other functions of the quantitative value

[1] *Cf.* my discussion of this topic in the *Quarterly Journal of Economics*, August, 1915. I may add that Schumpeter's scheme is, in my judgment, equally useless as the basis of a hedonistic theory of *welfare*, since it is *absolute* amounts of utility that are significant there.

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are shouldered on a hard-worked and unusually-defined concept, *Kredit*, which leads Schumpeter into certain "heresies" (page 199) regarding credit, which are mostly harmless in themselves but which will arouse misunderstanding and opposition. "*Praeter necessitatem entia non multiplicanda sunt*," and the social value concept, which covers by inclusion the notion of market ratio—ratios of exchange being ratios between social values—and which does all the work that Schumpeter attributes to *Kaufkraft* and *Kapital*, and most of the new work which he attributes to *Kredit*, is to be preferred, if only on grounds of intellectual economy. "Capital" is then saved for more usual meanings, and economy in terminology is also effected. Schumpeter sometimes, also, follows the not uncommon practice of the Austrians in using marginal utility as the equivalent of objective value, tracing it back by the imputation process to the original factors of production, and speaking of the marginal utility of labor; whereas labor, unless employed in personal services, has not utility (in the strict Austrian sense) but only objective value (page 169).

Schumpeter's theory of economic evolution centers about the entrepreneur, as I have already indicated. His is not, however, the "entrepreneur viewpoint" of Davenport. Davenport is working out price theory, of the type which Schumpeter would characterize as essentially static, and for Schumpeter there is no entrepreneur in the static state. The independent manager of a static enterprise is not an entrepreneur. Nor is even risk-bearing essential to the entrepreneur function. The entrepreneur is, in essence, the dynamic man, the man who carries through some *new* thing, the man of energy and relentless purpose, who puts through, against the resistance of the mass of "static economic subjects," the more efficient and more profitable method of economic activity. He is not necessarily the originator of the new idea. He is in essence a man of action. "Static" and "dynamic" characterize not alone states of society, but also types of men. Most men are too weak to break out of the static routine, to face hostility and opposition from associates, and to face the fear that rises in their own bosoms of the new and untried path. This contrast between the small, but vastly important, group of leaders, and the inert, passive, resisting masses, Schumpeter elaborates in great detail in chapter 2. The analysis is searching and exceedingly interesting, though one wishes to offer objections in points of detail, notably to the characterization of the static masses as "hedonistic" (page 128). Nobody is really hedonistic except the voluptuary and the sentimentalist. And to be hedonistic does not mean necessarily to be lacking in initiative and in

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the power to put through new things: witness the *arbiter elegantiarum*, Petronius. The psychology of Schumpeter's entrepreneur includes such elements as love of activity for its own sake, love of creative activity, love of distinction, love of victory over others, love of the game, and other traits which the newer psychology has been emphasizing, and with which such writings as those of Veblen and McDougall have made American students familiar. These motives, rather than the mere desire for satisfactions from economic goods, move the enterpriser. But the timid static elements in the economic situation fear and resist his efforts. For the most part they stand on "slippery ground" (page 162)—a positive scandal in the static state!—and they have no surplus energy to spare, even if disposed to aid. They must be *forced* by the commanding personality to go in new paths. In earlier conditions, the enterpriser was commonly in possession of political power, and forced the coöperation of the static economic subjects by law, taxes and physical force. In modern times the enterpriser has no such resource. How shall he get the necessary labor, land and instrumental goods for his purposes? He can get them only by *buying* them, by outbidding those who wish to use them for accustomed uses. In the static state all labor has its usual employment, there is no "reserve army," all land has its accustomed uses, all machines etc. have been produced with a definite destination in mind. Further, all money is in use in accustomed ways. There is no surplus *Kaufkraft* for the enterpriser to get hold of. It is an unessential accident if he has any "static *Kaufkraft*" himself. Where shall he turn? Enter *deus ex machina*, the banker! There is no need for prior saving, for accumulation of surplus stock (pages 57, 67, 193, 312 ff., 395). Capital accumulation in the usual meaning of the term plays no part in Schumpeter's theory of evolution. *Kapital* in his own sense, chiefly new credit granted by the banker, is enough. This sounds like dangerous heresy, especially when it is coupled with the doctrine that the new credit does not rest on goods, and has no *Deckung* (page 206). Schumpeter is especially anxious to rule out saving and the whole set of notions, abstinence, time-preference etc., which accompany the saving process in the usual economic analysis (*cf.* chapter on *Kapitalzinz*). But the heresy looks less dangerous when one learns that by "saving" (*Sparen*) Schumpeter means merely reducing current expenditure, so that the enterpriser who saves part of unusual profits is really not saving at all (page 323), and when one discovers that his contention that accumulation of a *Gütervorrat* is unneccessary really means merely that there need be no special accumulation *ad hoc*

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preliminary to the starting of a new enterprise. Of course if saving means trenching upon accustomed expenditure it is excluded by hypothesis from the static state, but there may still be plenty of capital (in the ordinary sense) for Schumpeter's entrepreneur to get hold of by means of his new *Kapital*. Nor need we be much alarmed by the contention that we thus have something new, for the first time a temporal discrepancy between the creation of obligations and the ability to pay them (page 195), and that, consequently, there is a time during which credit has no basis in concrete goods. In the first place, it does not differ in principle from the case where a man buys a machine. The machine is, after all, in economic nature, merely a "promise" of future goods and future values, as an Austrian economist should be quick to recognize, and machines are almost as frequently poor performers as borrowers—indeed, most commonly, the borrower's inability to pay, when he does fail to pay, comes from the failure in value of the goods which his physical equipment produces. The new credit is really covered by new values: the new plan of the enterpriser, validated by the banker, attains a value equal to the present worth of the extra products which it promises. Further, of course, the new credit is quickly protected by the concrete goods which the borrower purchases to carry on his undertaking. Further, the banker, in general, insists on a satisfactory margin at the outset. Loans are made on the basis, not of goods, but of *values*, even though values are commonly embodied in goods. But mere physical quantities of goods are no index of the amount that can be loaned on them—witness cotton before and after the outbreak of the European War. Now value is essentially a psychological thing, and *belief* is often a very important element in value. The new credit and the new value rest ultimately in belief. The value of the new plan rests proximately in the banker's belief in it, manifested by his granting of credit. But the value of the *credit* rests ultimately in the *prestige* of the banker, which is a fact of social psychology, resting in the massing of belief on the part of the public in him, in the validity of his banknotes or of his deposit-currency. Economic social value is an institutional value, specially weighted and controlled by classes and institutions,[1] among which banks are prominent, whose power rests ultimately on that great, undifferentiated source of social power, the consent and confidence of the mass, and on support from other institutions. Thus the view that the

[1] *Cf.* Cooley, "Pecuniary Valuation as an Institution," *American Journal of Sociology*, January, 1913.

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banker creates "purchasing power," and that this "purchasing power," by quantity-theory reasoning, raises the prices of goods, touches only the surface of things, and, I may add, does not even correctly describe the surface. It will be seen, however, that my interpretation does not deny the rôle which Professor Schumpeter assigns either to the banker or to credit.

We may admit the qualitative truth of Professor Schumpeter's picture of economic evolution under modern conditions, even while questioning that it represents the only or the main path of economic evolution under modern conditions. His sharp contrast between the timid, static masses and the few rare, dynamic spirits, is doubtless truer of Europe than of America. The enterpriser has found much sympathy and coöperation among the mass of men with us. And his *Kapital* has more frequently come from the big investing public, and from the speculative public, than from the banker. The dependence of new enterprises on banks is doubtless very much greater in Germany. The commercial banker (who antedates the investment banker and underwriter) did often in our earlier history depart from his proper functions, and make long-time loans for founding enterprises and for land speculation, but he has increasingly withdrawn from that function, and the modern investment banker and underwriter commonly take securities in the expectation of passing them on to "static" economic subjects. Moreover, in America, the investment banker commonly prefers bonds; really novel enterprises must sell their stocks directly to the public, or find special patrons. Even here, the commercial banker is likely to supply part of the new *Kaufkraft, through* the investment banker, or *through* the investing public, to the entrepreneur, finding his safety in the "margins," and general possessions which these can offer.

In mobile *Kaufkraft,* in credit and "money funds," Schumpeter sees the "supply" for which interest is paid; the entrepreneurs are the demanders, whose need for new *Kaufkraft* leads to the payment of interest; entrepreneur's profits are the source from which interest is paid. The money-market is the place where the rate of interest is determined. Interest and entrepreneur's profits tend to rise and fall together. If entrepreneur's profits (explained in much Professor Clark's fashion) should disappear, interest would disappear (pages 272-277, 373-413). There is no interest in the static state. And even in the dynamic state the only way in which the lender can get an enduring flow of interest is to lend, first to one enterpriser, and then, before that enterpriser's profits have been destroyed by competition, withdraw his loan, and lend to another, and so on (page 408).

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Schumpeter does not shrink from drawing the full consequences of his theory, "*wie immer die Sache historisch stehen mag*"! But why is there no interest in the static state? Clearly it is the theoretical static state that is meant here—as a matter of fact we know that interest does exist in the realistic static state. The reviewer has been at great pains to collate the passages that bear on this point. The reader may consult especially pages 52-57, 65, 66, 68, 169-170, 294, 312 ff., as well as the chapter on interest. There are numerous other passages, but these are representative. Some interest, in the form of consumption interest, and interest on loans to restore an accidentally injured business, may exist, but this does not belong to the *Wesen* of the static state, and, as a matter of fact, only a few usurers could live upon it (page 375). Credit does not belong to the *Wesen* of the static state, because the static state can be explained without it (page 208). (It may be noted in passing that Schumpeter is fond of using "*Wesen*" as a premise, and dismissing things as unimportant because phenomena may be ideally conceived without them. Sometimes in this way he slips rather lightly over fundamental distinctions, as when he says on page 277 that only unessential causes prevent the entrance of land into the money-market, when a chief point of his sharp sundering of *Kapital* and concrete goods rests on the high degree of saleability and mobility of the former. Sometimes, too, *wesentlich* seem to mean merely *interessant* (page 214).) But the central argument against interest in the static state would seem to rest on the negative proof that the theories which have sought to explain interest by productivity of capital, or abstinence, or time-preference, are invalid. Productivity theories and abstinence theories are disposed of in Böhm-Bawerk's fashion, and I shall not discuss the matter further than to say, as against both Böhm-Bawerk and Schumpeter, that "abstinence," "waiting" and "time-preference" seem to me to be simply different names for the same general theory. Schumpeter's main argument is directed against the doctrine that there is a general preference for present over future goods, a systematic undervaluation of the future. That such fact, if it existed, would lead to interest, he admits, but he denies its existence in the static state, saying that the time-preference which we actually find under dynamic conditions is a reflection of the fact of interest, growing out of the money-market phenomena already described, that time-preference is a result, rather than a cause, of interest (pages 339-40). Having disposed, on Böhm-Bawerkian lines, of the notion that capital (in the ordinary sense of the term) is an independent factor of production, he finds nothing in the imputation process to cause interest—the

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values of consumption goods, in the static state, will be imputed, undiminished, to the original factors of production, land and labor; intermediate goods (instrumental goods etc.) are merely channels through which the streams of value flow. At once he is met with the difficulty that if that were so every piece of land would have infinite value, since an infinite series, even of small rents, would reach an infinite total, if the later items in the series were not diminished by a time discount. In this conclusion, which Schumpeter admits would be absurd (page 333), the capitalization theorist, for example, Fetter, would see sufficient evidence that interest would necessarily exist in the static state, if not as a contract income, at least as an implicit factor in the capitalization process, as a rate of discount, reducing the value of the land from the infinite sum of an infinite series to the finite sum of an infinite *convergent* series. But Schumpeter has an escape by means of the relative-exchange conception of value. Land has neither a finite nor an infinite value in the static state: land has no value at all. Land is not *exchanged* as a whole in the static state, but only its yearly services (page 334). Where there is no exchange, there is no value. On the relative value theory Schumpeter's answer is logical—which shows how inadequate the relative value notion is![1] If one applies the absolute value concept, which sees in exchange relations only one of the manifestations of values, and sees value as independent of, and causally prior to exchange, of course Schumpeter's answer means nothing. There are many ways, apart from exchange, in which the values of land might be tested. Suppose for example that the land is river-bottom land, and that floods threaten to wipe it out; what outlay will the owners be willing to make to protect it? If floods are to be ruled out as unforeseen accidents, not part of the *Wesen* of the static state, we will make the assumption heroically static: the floods come in a fifty-year cycle, endangering each piece of land in the river once every fifty years, in a manner and to an extent that is definitely foreseen and understood by everybody in the community. (A fifty-year cycle is just as "static" as the yearly cycle which the seasons bring.) Will not then the value of the land be tested?

Schumpeter has partly deceived himself, I think, by assuming short production periods, where the time factor is not impressive. He speaks of production in the static state as going "*jahraus jahrein denselben Weg*" (page 52). He avoids the complication that

[1] *Quarterly Journal of Economics*, August, 1915, pp. 695–707, especially 703–705.

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not all production periods are of the same length by the simple device of assuming them to be of the same length (page 64), and by saying that nothing *wesentlich* lies in the longer periods (page 69). But it is precisely in the choice of longer or shorter production periods that the time-discount factor manifests itself. In the static state the same choices will always be made, and production periods for a given industry will always be of the same length. Schumpeter seems to think that he has got rid of this action of time preference by making the length of the production process and the accumulated stock of capital-goods part of the *gegebene Daten* of the static state (pages 116, 464). But in precisely this assumption is involved a rate of time discount! Of course Schumpeter is at liberty to make automata of his static economic subjects, and it may be that he is doing so—thus passing from the theoretical to the realistic static state, in part. But the same sort of reasoning which would rule out time-discount, because it remains constant, as a factor in motivation, would also rule out utility, since utility-curves are likewise assumed to be constant in his static picture.

Of course the *blosse Zeitablauf* (page 338) does not cause interest. And it is a matter of human psychology. And the reviewer would express dissatisfaction with the way in which the time-discount factor has been developed by Böhm-Bawerk, Fetter and Fisher, on the basis of individualistic assumptions and individualistic psychology. But he finds nothing in Schumpeter's argument to shake the prevailing view that, human nature and human society being what they are, future goods will be worth less than present goods, in either a dynamic or a static society. If it were absent, and if interest (at least implicit) were absent, Schumpeter's static equilibrium would be unstable. The merchant would gain nothing by having a large capital employed in commerce; he might just as well use a smaller capital, and consume part of his wealth. He might barter his stock for a piece of land, his stock having finite value, and the land promising an infinite income in the course of time, yet having (as Schumpeter admits) no infinite value. The craftsman would have no rational grounds for maintaining at any fixed point his stock of tools and raw materials.

Schumpeter's theory of crises rests again on the strict sundering of static and dynamic states, and on the contrast between the dynamic enterpriser and his timid, "static" fellows. Schumpeter distinguishes crises and panics. He is concerned with the former. And he rules out crises produced by non-economic causes, such as wars, crop fail-

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ures and pestilences etc., and crises produced, say, in a borrowing country by the withdrawal by the creditor country of loans. He wishes to know if economic evolution in itself bears the seeds of death, if "pure economic" crises are inevitable. He answers, yes. Economic evolution does not move steadily, like a tree unfolding in leaf and branches, but in *Teilentwicklungen*, each initiated by a new impulse, and often by new personalities, with periods of "statification," static states, lying between the separate evolutionary movements. This is necessarily true for each enterprise, considered separately. A new plan is initiated, is put through, and then a breathing spell, a period of readjustment to the change, of taking stock, must precede any new course of action. But why need this be true of the whole *Wirtschaft*? Why may not new undertakings be strung out evenly in time, each but a minor ripple on the steady social stream? The answer is that the dynamic personality breaks down the barriers which prevented weaker men from initiating new enterprises, and so they follow in his train. His large profits, moreover, invite competition. So many start after him, the movement becomes corporative. Then his new demand for land and labor raises the prices of these. The static economic subjects, who must compete with him for land and labor, and who, *ex hypothesi*, were already producing at cost, find themselves compelled to readjust. Some of them may gain by the entrepreneur's new demand for their products, but all of them, in any case, find their situation *changed*. The entrepreneur himself had made his initial plans on the basis of the preëxisting static value and price system, and he, too, is disconcerted by the readjustment of values and prices. The static equilibrium is broken, and it seeks to reassert itself. In time the static tendencies overcome the dynamic tendencies, and a period of liquidation, "statification," ensues, in which a new static equilibrium is established to serve as the starting-point of a new evolutionary movement.

There are many points in this which I should like to elaborate. It is an exceedingly interesting and valuable chapter. But my chief concern, for the rest, is to bring Schumpeter's theory of crises and his theory of interest together. May it not be that he should content himself with proposing his theory of interest as an explanation of the movements of the interest rate, during the dynamic periods, *above* the static minimum? Interest persists even in the "period of statification" lying between the *Teilentwicklungen*. Indeed, the interest rate during periods of depression is doubtless well below the static minimum, for Schumpeter himself indicates that depressions are more severe

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than his theory requires (pages 452, 455–457)—that the "period of statification" need not be a period of depression, but merely a period of liquidation and readjustment, that the wave-like movement of prosperity need not be a true wave, but merely an upward movement, then a straight line, and then another upward movement. Hence the point that the rate of interest when evolution is checked often does not do more than cover risk and the banker's expenses (page 396), would, in so far as true, cover not the theoretical period of statification, but only the extreme depressions which are *unwesentlich*.

The reviewer hopes that Professor Schumpeter—whose command of English style is faultless—will give us an English edition of this interesting and important book. He knows no book that would be more stimulating to a class in economic theory, and he feels that the constructive doctrine of the book contains much that is destined to become a permanent part of economic theory. The economist has too long been content with static theory, and work like that of Schumpeter and Veblen is full of significance for the better understanding of economic life.

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FOUNDATIONS OF WEST INDIA POLICY[1]

MENTION the West Indies of the sixteen hundreds and the mind leaps to a free field of fancy; in the languorous noon of a tropic sea, by the curving strand of some nameless isle, one sees, perhaps, a gaunt and dingy flagless ship waiting whilst its crew, long-haired and bleared and greasy, divide the plunder of a brass-bound treasure chest—a lawless time and place, with bold adventures metely chronicled by the pen of Smollet or Defoe or R. L. S. The gentle reader may remember vaguely that the Caribbean was not filled entirely with galleons and corsairs, that some men actually did build homes and spin out an existence, sometimes profitable enough, in their tobacco fields or sugar mills; but to ask him soberly to think of the Antilles as the residence of honest men in the century when the buccaneers haunted Hispaniola, and Mansfield and Morgan harried up and down the Spanish Main, is quite too much to ask of human nature. Very likely he marks no division between buccaneers and pirates; all that happened "beyond the line" takes on a romantic glow, and it never occurs to him to relate it to the grand duel of Spain and England for sea power, the amazing intelligence and energy that made the Dutch the conquerors of markets, the assiduous labor of Colbert and of Sir George Downing to build up perfect schemes for mercantilist empire, the evolution of joint stock companies, or, least of all, to the serious enterprise of the English Puritans to found an ideal commonwealth.

Fortunately the buccaneers have recently been borrowed from the story-writers by more faithful and responsible historians. Five years ago in London there appeared a work by C. H. Haring, who, after re-telling what was trustworthy of Esquemeling's *Bucaniers*, supported by considerable evidence, established clearly that these private men-of-war were protected and urged on by the authorities of France and England, and had whatever official standing might proceed from letters of marque issued against Spain. Secretaries of state corresponded gravely with the governors regarding the energy and efficiency of this arm of

[1] The Colonising Activities of the English Puritans. By Arthur Percival Newton. New Haven, Yale University Press, 1914.—xi, 344 pp.

Colbert's West India Policy. By Stewart L. Mims. New Haven, Yale University Press, 1912.—xiv, 385 pp.

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the service, somewhat irregular though it was, and as many facilities were given it as might be in times of formal peace. M. de Vaissiere's *Saint Domingue*, published the year before, had called attention to the interacting influence of the marauding bands of Tortuga and the planters of the principal French colony. Violet Barbour, in an article in the *American Historical Review* in 1911 summing up results of extensive inquiry in the State Papers, ably showed the difficulties which the connection between sea-robbing and the administration of West India colonies entailed. Though no important work of recent scholarship had appeared that dealt with the administration itself, interest, at first reflected from romance, was gathering, and it was thought not unlikely that such works must be under way and that their publication would not long be deferred.

Especially was this true in the light of the attention lately focusing in America and England upon the colonial systems as they operated in this hemisphere. The history of European settlements on this side of the Atlantic had been chronicled with perhaps wearying minuteness, but nearly always, in the nineteenth century, from the colonial point of view. The story of the thirteen colonies planted (it always seemed) as steps in the conquering march of human liberty, was followed with respectful interest in view of its tremendous issue. Searching for seeds was the grateful task of the patriotic scholar—the seeds of republican institutions and union and all the glorious ideals adverted to in the first ten amendments. When any measure of control was observed as proceeding from the offices of London it was treated merely as an attempt at impediment which the heroic colonists overcame. The imperial or mercantilist view was described almost as an aberration from which some near-sighted and ungenerous counsellors of the king seemed to suffer. Hildreth wrote his "severely impartial" account of New England without visiting the old. Palfrey found a summer's notes in London sufficient to balance his five volumes. Bancroft while minister to the court of St. James did hire copyists to transcribe the manuscripts of Dartmouth, Grafton, Lord North and others, but he had published his three volumes on the *United States of America as Colonies* before he turned seriously to research in English sources. Fiske gained his notion of "the English side" from reading Gardiner.

But this neglect seems greater than it was, and is explained not so much as flowing from a lack of a right desire to know the truth as to the lack of opportunity to find it. So long as the English records on America and the West Indies, for example, were left extended through their seven hundred volumes, research was not invited; it was not until

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after the middle of the century that the Master of the Rolls began to analyze and publish in synopsis the papers confided to his care, and not until 1870 that the Commission on Historical Manuscripts brought forth its first report. Slowly, following the lead of Doyle of Oxford, American scholars began to avail themselves of the material thus exhumed, and a new point of view became observable in the writing of our colonial history. A half-century after Roscher published his *Kolonien* there seemed emerging an appreciation of what colonies really were. Finally the trustees of the Carnegie Institution authorized the production of systematic guides to the materials for our history contained in foreign archives. At the same time appeared the first volume of Mr. Beer's study of the British colonial system in the preface of which it was stated: "The focus of interest is, however, the British Empire, and not the rise of the American Nation." Distinctions of useful and useless colonies were newly apprehended and the mind recalled with fresh understanding that in 1763 so astute a statesman as Lord Hardwicke had solemnly counselled the trading of Canada for Martinique and Guadaloupe. It was now realized by students of colonial history that in the Caribbean might best be traced the application of those principles which formed the working basis for the old empires of early modern Europe.

From the point of view of the institutional historian the West Indies are as homogeneous a group as New England. If the one approximated to the Greek type of colony so did the other to the Roman. And of a group so similar in quality we may desire and perhaps some time get a consecutive and systematic history, especially of administration, like those now under way of the thirteen colonies. Much has been written about the West Indies: the New York Public Library in its bulletins for 1912 listed three hundred and forty-seven titles, but chiefly in Spanish and leaving many arid spaces. Before any important summary account can be composed there must be a broad and firm basis of monographic study conceived and developed in the light of scholarly ideals, with modern method and with access to the full body of material. Those who watch the progress of historical frontiers observe with some such further hope the emergence of two substantial works in English, in a measure pioneers in this conquest of a new domain.

On opening Mr. Arthur Percival Newton's recent book on *The Colonising Activities of the English Puritans* one may expect to be regaled again with the oft-repeated saga of John Winthrop and the godly men of Massachusetts Bay; but the sub-title, The Last Phase of

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the Elizabethan Struggle with Spain, stirs the curiosity, for though the saints of the great migration were prepared to struggle furiously enough against the papists as they met them in the forests of New England, these were of another nation. Where did the English Puritan play the epilogue of the drama begun by Master William Hawkins and his "tall and goodly shippe" a century before? The reader turns to follow the story of a long-forgotten attempt to colonize three tiny islands in the heart of the Spanish seas. The project of the Providence Island Company is important, the author tells us, not alone because it carried forward the tradition of hostility to Spain, but in that it included "almost every important member of the inner circle of leaders in opposition to the arbitrary rule of Charles I" (page 3) and whose councils were, therefore, the brooding place of plans that revealed new destinies for England. Its minute books serve to fill in the biographies of Pym and Warwick and others during the eight years when the Puritans were eclipsed by the king's unhampered rule, and its instructions to outline systematically the Puritan notion of what an ideal commonwealth ought to be.

The connection between privateering and the planting of new colonies is interesting. The long negotiations for the Spanish marriage enforced a simulated friendship with the subjects of Philip III which made the preying on his commerce no longer permissible. Thus was released much capital which must seek new channels of investment, a condition resulting in the formation of the London and Plymouth Companies of 1606. When in 1623, however, the alliance came to an expected end, a new era of colonization was begun, this time in the enemy's preserve, the Caribbean. St. Christopher, Nevis, Barbadoes, Montserrat, all were founded in a year or two, not solely for the ends of peaceful commerce; and when the possibilities of Santa Catàlina, lying not far off the Moskito coast, were disclosed to Warwick, a company for its colonization was soon organized among his Puritan friends, evidencing in personnel a result of the commercial revolution large with consequences:

> The intimate business alliance of such members of the Upper House as Warwick, Saye, and Brooke with great London merchants is prominent throughout our pages and we must recognize that these commercial bonds are of great importance in the history of the time, as rendering it easier for great nobles and wealthy country gentlemen to unite with the city merchants and to work side by side with them in the constitutional struggle against the crown. Such a union would have been impossible at an earlier period [page 39].

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The business organization of the Providence Island Company has been described by W. R. Scott in his learned work on *Joint Stock Companies Before 1720*, but of its political significance he does not speak. In 1629 two rival colonizing schemes were broached by Puritans, the one by a simple country gentleman anxious to find a haven from the gathering storm of high-church vengeance, the second by a noble lord not unwelcome at the court, who combined with the desire of finding a refuge for Calvinism, great purposes of state and hope of fortune, and strove hard to bear his plan upon the other. But this was the day *novi homini*.

> In the birth throes of the Massachusetts commonwealth the critical decision was made, and made aright, by the obscure Suffolk squire, while the great noble, skilled and cautious as he was, was hopelessly wrong. . . . Warwick and Rich well knew the difficulties to be contended with and preferred to move along the well-marked lines of policy; Winthrop and White, guided as they felt by a Higher Power, were resolved upon a course that was new. The men of the future had their way and the great human stream was directed to the New England shore [pages 49–50].

Of the twenty shareholders of the Providence Company four were lords and six were knights, but the most important in this venture, as in others, was John Pym, Esq. As treasurer, which of course meant official director, of the enterprise, he gave unsparingly of his thought, energies and fortune, and the company had full benefit of his executive power and his uncommon knowledge of finance during the interval when he could not serve the nation. The program of instructions to the colonists reflects, no doubt, his own ideal. These men, gathered in large part from Bermuda and supplied with the spiritual guidance of a minister, were to be gathered into "families," with common property and group responsibility, like old frith gilds, though at least one error of the Virginia enterprise was avoided in the admonition to plant twice as much corn as needed. They were to trade with the company's ships and especially in specified commodities, and always to beware of the Dutch. But in a climate where forced labor seemed a stark necessity, in the maelstrom of commercial rivalry, none too squeamish, between English, Spanish, Danish, French and Dutch, with colonists touchy and contentious, the will to virtue was sapped and broken. "That the foundation of an ideal commonwealth and the pursuit of profitable investment for trading capital are incompatible aims has been so often demonstrated that the proposition may nowadays be regarded as a truism" (page 123), and it is not surprising to

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learn of troubles with the ministers on one hand and insubordinates who would turn pirates on the other. It is probable, also, that the enthusiasm for expansion, proposed by Pym and urged on by some whose paths of profit lay outside the law, dissipated the vigor of the colony. Settlements were planted upon Tortuga, off San Domingo, a resort of rovers, into which the catechism could be with much difficulty introduced, upon San Andreas, lying to the south, and upon the Moskito Coast.

The products of their agriculture—tobacco, cotton, sisal hemp, indigo, madder and fustic—favored the introduction of the negroes now appearing in West India markets, and soon in Providence these outnumbered the whites, to the consternation of the company. Yet the treasurer and his associates were intolerant toward abolitionists, one of whom was told in admonition that "Religion consists not so much in an outward conformity of action as in truth of the inward parts." The large plantations needed fewer and fewer whites and Pym began to fear the fate of Barbadoes, a colony turning gain to absentees who lived in London. All this seemed unattractive to the Puritans, and after 1635 of those few who were sent out to the colonies they made a small proportion.

In fact, in the gloomy prospect for religious liberty in England, interest shifted for a brief time to the new project of Saybrook at the mouth of the Connecticut. For this an arrangement of government was devised which shows how far the Puritan ideal was from democracy. Political society was sliced into two ranks of citizens, gentlemen and freeholders, the governor and patentees always chosen from the former, who in entirety were to constitute the upper house of the "Parliament" while freeholders sat in another house by deputy. This document is, of course, well-known, and has generally been thought to represent an attempt to foist an aristocratic scheme upon a people who had left England to escape it. Newton, however, remarks with wise comment that it seems in all ways to show "what was the conception of the time-honored constitution, that was held by the men who, within so few years, were to sway the destinies of England for good or ill" (page 181).

The last half of the book is an account of the inevitable failure. Tortuga, or, as it was now called, Association, was lost to the Spaniards who had begun a campaign against the interlopers. The King leaning to the anti-Spanish party in 1636 made Providence legally a privateering stronghold. Englishmen struck their usual pose of injured innocence and then began in earnest the war on the commerce of Seville. Slave rebellions paralyzed attempts at peaceful industry. Unable to

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find colonists in the mother country, the company tried unsuccessfully to proselyte in New England through the agency of the disgruntled and reduced John Humphrey, but to the loudly-voiced disgust of Winthrop and the magistrates. Pym's attention was diverted by the progress of the ship-money cases, and the project conceived with such high hope was admitted to have failed. Providence was now a base for privateers, until captured by the enemy in May, 1641.

Such is the cold abstract of a narrative which, told by Mr. Newton's pen, will not be forgotten. The knowledge of most students of English or American history about this enterprise has been, I presume, scanty. Beer mentions it a dozen times or more, obviously with correct understanding of its import and knowledge based on first-hand information. But to come upon confusion between Providence and the New Providence of the Bahamas one has to go no further than the index of the *Encyclopaedia Britannica* or the biographies in Alexander Brown's *Genesis of the United States*. Yet the author maintains that

> the Providence Company served as a connecting link between the Elizabethan seamen and Cromwell's "Western Design," between the exploits of Drake and Hawkins and the founding of Jamaica. . . . The "Western Design" was no new creation of Cromwell's brain, but was an ordered attempt to carry to fruition the ideas of England's true foreign policy that Pym and Warwick had instilled into the minds of the members of the Providence Company and the Puritan party in general.

Warwick has been a shadowy figure, as constant as the King in the background of colonial enterprise, but new color is cast upon his career and character by this study. He is seen not only as the prosperous venturer in privateering voyages, but as the planful lieutenant in guiding a settlement in a new sphere, not the tool of the court, as Virginia historians like to picture him, but the friend and intimate associate of libertarians like Pym and Hampden, once soberly himself planning to take up the duties of resident governor of Providence. Indeed it was the Earl of Warwick who brought the company's experience in the West Indies to bear upon the colonial policy of 1652. The chief value of the work is in showing how certain principles of colonial control were evolved and tried by a private company whose members were enabled by the strange trend of history to induce their acceptance by a nation.

If the enterprise of the Providence Company as the last phase of the Elizabethan struggle with Spain marks the end of one era, it is well toward the beginning of another in the history of the West Indies, that

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of control by the newer colonial powers. In this the English, for all the impulse given by the Puritans, cannot be said to have borne the major part. Though Barbadoes and Jamaica and the smaller settlements grew in importance, the interest centers in the great plans of the adviser of the Grand Monarque and his long contest in trade with the energetic Dutch. For the first time we are now able to find in one well arranged and documented study a clear account of the West India policy of Colbert and see what was schemed so carefully for those French islands, hitherto to American readers little more than names, and whither, as Professor Mims remarks, "students have watched New England ships sail with their cargoes of fish, lumber, live stock, and food-stuffs and have left them, so to speak, to disappear into the unknown, whence they saw them reappear with cargoes of sugar and molasses" (page viii). About these islands there is much to tell beside the imperial plans of the great minister, much of the organization of society and industry, land and financial systems, but all this is another story which in his preface the author promises to tell another time. Professor Mims begins his account, in the paucity of manuscript following Du Tertre, with the first French settlements in the Antilles thirty-five years before Colbert came to power. This was the time of private companies encouraged by Richelieu, but ill-financed and inexperienced to cope with the plague and war and famine of these southern islands, so that their frail settlements would have perished had it not been for the visits of the ubiquitous Dutch merchant. "He knows the way to everywhere and is acquainted with the needs of all. The French, the Spanish and the Portuguese were much superior as explorers, the English as permanent colonizers, but the Dutch were the traders par excellence of the seventeenth century" (page 21). Private enterprise passing now and then through bankruptcy did succeed in colonizing fourteen islands. Attempts were made, as in Virginia, to diversify industry by laws against tobacco, but no more successful here than there, until the introduction of sugar culture by Dutch traders in 1639. The prosperity of the islands increased somewhat, though hedged about by the restrictions of the time; commerce was the monopoly of the company, the private trader as well as the foreigner was, by law, rigidly excluded. The Dutch, however, were too necessary, the companies were abandoned and about 1650 most of the colonies were sold to individual proprietors under whom trade steadily increased, but again not to the gain of Frenchmen. Colbert himself in 1662 estimated that out of a total of 150 vessels which traded in the French Antilles, three or four at most sailed from the ports of France. It was his task to make the islands really a part of an empire.

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To bring them within an economic system political consolidation was necessary; a lieutenant-general was put over all. How the Stuarts must have envied the ease with which imperial policies were settled upon Frenchmen! There were no charters to consider, no *quo warranto* or *scire facias;* the government desired that fourteen colonies should be united, and it was done. With conditions thus prepared, Colbert began. As William Laud wrote, referring to another phase of nationality, so Colbert might have said, "As for the state indeed, I am for Thorough." Never was the mercantilist theory of the service of the colony more exactly followed. As agencies of administration the earth was apportioned between two companies in 1664, one for the East Indies to exploit the lands between the Cape of Good Hope and Cape Horn, the other the West India Company, to have the monopoly of the rest. Thus by the peaceful growth of trade and settlement the domain of the Sun-king was to be thrown forward. The elaborate provisions of subscription are all set forth in Professor Mims's book, the guarantees and promises and the drastic expedients of forced investment by all connected with the government—a campaign of browbeating and intimidation.

> The West India Company was thus from the first, and remained throughout its history, a commercial enterprise created by the government, supported by it and directed by the king's greatest minister. The almost unlimited powers which had been bestowed upon it by its letters-patent were powers only in name. It was subjected at every moment to the orders of Colbert and became the puppet of his will. In a word, the company was maintained and controlled by the state to perform a national service and to make possible the success of a national policy [page 82].

Inevitably there comes to mind the contrast with the English method where private enterprise built up an empire. The concept of control with its train of sacrifices is dominant in states where the individual is merely a member, as in absolutisms, personal or socialistic. It is difficult to think of John Pym, for all his feeling of nationalism, approving the way in which Colbert quite ignored the frontiers of liberty. The two companies illustrate the operation of an upwards and a downwards procedure of authority, the one springing from and the other settling upon a people. It may be argued that the Navigation Acts followed the same principles: the same end of nationality was to be served and in each case the same class was to be enriched. Probably no English Colbert in the seventeenth century would have ventured the regulations of Elizabeth within the limits of the realm, but to the spon-

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sors of the trade law the colonist seemed under special contract and the ordinary guarantees he left behind when he sought his fortune on another shore under the protection of his flag. The colony exists for the benefit of the state, not for that of the colonists. Colonies which serve the state are useful; those which do not should be economically reformed. Such was doubtless the official theory in England, urged by Mun and Davenant and by Sir Josiah Child, who in his *Discourse* bitterly complained that "New England is the most prejudicial Plantation to this Kingdom," but the practice was not as consistent as Colbert's because no individual summed in himself the power of the state and because the English colonists, though perhaps no more disgusted with it than at times the French, would not admit the validity of the theory, while French colonists, whatever their behavior, did. Though there was no talk of constitutional rights there was more actual revolt in Martinique in 1665 than there was in Massachusetts in 1689.

The cutting-off of the Dutch trade brought pitiful want to the Antilles; for the company, even aided from the royal treasury, could not supply the colonies with needed merchandise, and tobacco rotted to the ground. During the English war, Dutch ships had to be re-admitted and later private traders among the French were let in freely. It looked as if things would slip back to the proprietary rule with the fine freedom of the ports to all. "There was, however, the indomitable will of a great minister, which had not been fully reckoned with or fully understood." The foreigner was again rigidly excluded but the private trader was allowed to stay. Yet certain commodities like slaves, salt beef to feed them, and live stock were so necessary that their sufficiency must be guaranteed. These the company undertook to furnish and claimed as a monopoly. But the evils of monopoly were again exemplified in high prices. Colbert's policy of a self-sufficient empire could not contemplate continued trade in Irish beef. It must now be a product of French pastures with all the profit staying with the French. Slaves, which could be furnished far more cheaply by the Dutch, were now sold by the company at double price. The new policy was not satisfactory and in 1674 the charter of the company was revoked. Yet it had served its purpose; for it had led the way for the French private trader, so that the Dutch were forced down to a smuggling trade of less than half.

Projects to reopen ports to foreigners were immediately quashed by the great minister, though he was more lenient toward the English than the Dutch. Into the story now come Newport and Boston men, with whose later adventures in the Antilles Mr. Beer has made us somewhat

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familiar. These desiring to offer slaves, salt meat, live stock and horses in exchange for rum and molasses were denied by Colbert, though the colonists managed to find some ways of evasion. The West-Indian planters could not sell their molasses in France for want of market or their rum because of competition with French liquors, and the temptation to this inviting trade was too great to be withstood; its gradual enlargement despite the effort of the two governments did much in a later century to break down mercantilism and bring about the American Revolution.

Colbert's plans in this rehearsal may seem to have come to an inglorious end, but by employing company or private trader when occasion offered he had succeeded in enlarging French commerce with the Antilles from nearly nothing to almost two hundred ships a year. But the exchange commodities were never sufficient; for French enterprise was never equal to the task of adequately furnishing French colonies. The great minister apparently was never able to produce that ideally balanced empire where colonies, supplementing each other exactly, furnished raw commodities and market for manufactures of the metropolis, but he made trade flourish where it had been despised and made France prosperous as well as glorious. Roscher in his chapter on the Spanish colonial system said: "Highly artificial governments, which are at the same time conscious of their weakness, have ever felt the need of limiting to as small an amount as possible trade which brings peoples together and which might bring, with foreign wares, foreign ideas and foreign influences." Colbert's policy had none of this exclusiveness of moral fear; it was consciously constructive, never bound to one device, favoring Huguenots as well as Catholics, and building up the middle class who struck so great a blow at the end of the next century. To make clear one part of the colonial phase of this policy has been a contribution.

Both of the studies under review are grounded in source material not previously explored. Mr. Newton has used the records of the Providence Company supplemented, of course, by the State Papers, Colonial, Domestic and East Indies, and manuscripts brought to light by the Commission. Professor Mims bases his account chiefly upon the *Archives Coloniales* together with those *de la Marine*, *Nationales*, *du Ministère des Affaires Etrangères*, and the manuscripts of the *Bibliothèque Nationale*. It is interesting to note that in his extensive bibliography no work in English is mentioned. Both are annotated extensively. Though neither will supplant the latest novel on my lady's table, both are well written, which is only another way of saying, as

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Mr. Arnold Bennett and M. Remy de Gourmont assure us, that they are deeply thought. Ranke's dictum that "the best written histories will be accounted the best" may call for special definition, and yet apt phrases and a bit of eloquence now and then after all do not vitiate a monograph. It would be possible to find little faults in Mr. Newton's index, especially with reference to the notes, and with Professor Mims's wealth of detail in the first two chapters, but this would, as amiable reviewers are wont to say, "only emphasize the general impeccability of the work."

That historical writing mirrors the major interest of the time when it is written, is in the process of becoming a well-rubbed truism. In the latter years of the past century two great phenomena engaged the mind of that fraction of the race who think. Vast and ramifying readjustments coming in the train of steam and steel forced home a vivid interest in the history of work. The lore of battlefields and palaces was less and less regarded while the short and simple annals of the poor grew to interminable volume. But this interest in the common man which thus found its historical phase was not entirely exclusive. Another driving tendency had come insistently to view in the quickening expansion of European peoples across the lands and waters of the earth, and, inevitable as ever, came the historical reflection, this time bringing to light the origins and growth of imperial control. Between themselves these two interests shared much of the historical publication of the last fifteen or twenty years. But this is another day; across the scholar's table as in every other place has come the shadow of the war; old hopes seem dashed with failure. If the reflective quality of historical study is constant, what will become of these two interests? It seems that one will languish for a season while the other thrives as newly fertilized. The cult of social progress, though by no means forgotten or discredited, must be content for a little time with the back of the mind, while attention turns more completely upon empires raging for dominion of the world. So imperial history, we may expect, pushed forward by new impulse, will discover new intensity and breadth, and new knowledge bring forth new ideals. Searching the memories of yesterday we learn the meaning of today.

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REVIEWS

The Confederation of Europe: A Study of the European Alliance, 1813–1823, as an Experiment in the International Organization of Peace. By WALTER ALISON PHILLIPS. London, Longmans, Green, and Company, 1914.—xv, 315 pp.

To his scholarly treatments of the history of European diplomacy during the era of Metternich which had already appeared in his manual of the nineteenth century, in the *Cambridge Modern History*, and in the eleventh edition of the *Encyclopædia Britannica*, Mr. Phillips has now added the publication of six suggestive essays delivered at Oxford in 1913, dealing with the same general subject but from the standpoint of international pacifism.

However opportune these lectures may have been in 1913, there can be no doubt that right now they afford most important food for thought to idealists everywhere, especially to Mr. Phillips's own countrymen, who are insisting that in the present war the Allies are fighting for democracy, for the liberties of small nationalities, and for disarmament, and who are urging that victory for the Allies be attended by the formation of a Confederation of Europe with a central executive and police force sufficient to compel every nation to respect the inviolability of treaties.

In remarkably clear fashion Mr. Phillips brings out the corresponding idealism among the Allies of a century ago—an idealism symbolized then not so much by England as by the Tsar Alexander—that perplexing and fascinating figure, who had been educated in the pacifist propaganda of his age—in Sully's *Grand Design*, in Émeric Crucé's *Nouveau Cynée*, in the peace project of the Abbé de St. Pierre, in Kant's *Zur ewigen Frieden*—and who aspired to establish in the world through international guarantees the reign of liberalism, justice and peace. As early as September, 1804, we find Alexander charging Novosiltsov, his special envoy in London, to inform Pitt that

> an absolute condition of any cordial union between Russia and England for the overthrow of Napoleon was that it should not lead to any set-back to humanity; the governments were to agree not to reëstablish ancient abuses in the countries liberated from the yoke of Bonaparte, but were to study to ensure them liberty based upon sound foundations.

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As "sound foundations" the Tsar recognized not only the principle of constitutional liberty but also that of nationality. From that time until his denunciation of the Carlsbad Resolutions in 1819, Alexander labored unceasingly and apparently honestly to secure the peace of Europe on the sound foundations that he had recognized. His magnanimity toward France and Poland in the settlement of 1814–1815, his original conception of the Holy Alliance, his unswerving loyalty to the treaties of Vienna, his repeated sacrifice of Russian interests to the preservation of the European Concert and of international peace, were continued proofs of the honesty of his intentions and contributed potently to the comparatively peaceful character of international relations during the forty years which succeeded Napoleon's downfall. All this appears clearly and directly in the pages of Mr. Phillips's book.

In the same pages appear the conventional explanations of the failure of Alexander's principles and the breakdown of his international system. There was the popular foreign distrust of Russia, especially in England. There was the fatal ability of Metternich to gain a personal influence over Alexander and, after 1819, to utilize the Holy Alliance for reactionary and narrowly Austrian policies rather than for liberal and European interests. There were the differences of opinion among the federated powers as to the best means of dealing with the Eastern Question and the Greek insurrection and more particularly with the revolt of the Spanish colonies in America. There was finally the separatist tendency of British foreign policy, registered by Castlereagh and rendered triumphant by Canning.

Canning has long been represented in history as a liberal-minded Tory who did inestimable service to the small nationalities of Europe as well as to the young republics of Spanish America, and as an inspirer of the Monroe Doctrine he has been duly lauded by historians of the United States. Mr. Phillips undertakes to perform a similar service for Castlereagh and to show that Canning's policies represented no fundamental departure from those of his predecessor at the British foreign office. Mr. Phillips reminds his readers that in the *Cambridge Modern History* (volume 1, chapter 1) he had already attempted to reverse the "shallow judgments" passed upon Castlereagh and his work "by the prejudice and ignorance of earlier generations," and expresses the hope that "the present work will serve to make still clearer the debt of gratitude which Great Britain and Europe owe to him."

To the reviewer, however, the "debt of gratitude" both to Castlereagh and to Canning becomes painfully less clear upon a careful peru-

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sal of Mr. Phillips's pages. Had Castlereagh, and Pitt before him, and Canning after him, been really sympathetic with Alexander's whole original program of liberalism, nationalism and universal peace, they might have prevented the impressionable Tsar from falling under the influence of Metternich and thereby have given a very different complexion to the international efforts of the Grand Alliance. But running through the pages of the book before us, like harsh warp in the woof of Alexander's dreams, appears the record of a selfish British policy. As early as 1804, Pitt, replying to the memorandum which Novosiltsov put before him on behalf of the Tsar, absolutely ignored the principles of liberalism and nationality and asserted that a Russo-British alliance should rest simply upon the common need of despoiling the French Empire and restoring "ancient rights." The key to the whole British policy as represented by Castlereagh in following years was the traditional aim of "establishing and maintaining the balance of power," and, as soon as Napoleon was overthrown, Castlereagh—as the secret treaty of January 3, 1815, with Austria, showed—would have used against Alexander the same weapons that had prevailed against Napoleon. That Castlereagh himself was lenient in dealing with France in 1814-1815 and again in 1818 was not due to any Alexandrian respect for the principles of nationality or liberalism, but rather to a desire to resurrect the eighteenth-century state system with its principle of the balance of power and with its demonstrated advantages to British prestige. As Castlereagh himself put it in August, 1815, "weighing the astonishing growth of other states in latter times, and especially of Russia, France may be found a useful, rather than a dangerous, member of the European system." At Vienna, at Aix-la-Chapelle, at Troppau and Laibach, Castlereagh was perpetually thwarting Alexander and perpetually unwilling—whether able or not—to give any fair trial to the Tsar's plans. In fact, it was against Alexander's sympathy for the Greek insurgents that Castlereagh in October, 1821, in coöperating with Metternich to maintain the Ottoman Empire, came perilously near a recognition of that idea of universal union against which he had always protested. Canning, of course, corrected the one inconsistency of his predecessor's career—after it had admirably served English purposes. And Canning's idea of "nationality" was akin to Castlereagh's rather than to Alexander's.

In an illuminating sentence Mr. Phillips declares that two years before the Congress of Verona Canning had welcomed the impending dissolution of the Confederation of Europe "and the return to the *healthy system of free competition* among the nations." Right here,

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though our author does not say so, appears the influence of the *laissez-faire* doctrines of the new political economy upon international relations. Some day the historians will show that it was the Industrial Revolution in England, rather than the Greek insurrection or the revolt of the Spanish colonies, which brought to naught the day-dreams of the Russian Tsar and permitted Canning to write exultantly to the British minister at St. Petersburg (January, 1823): "Every nation for itself and God for us all; only bid your emperor be quiet, for the time for Areopagus and the like of that is gone by."

Mr. Phillips's book is worth reading and study. He has made liberal use of the recent historical researches of the Grand Duke Nicholas Mikhailovich, M. Muhlenbeck's *Étude sur les origines de la Sainte-Alliance*, and of the British Foreign Office Records; he has brought to prominence, as they deserve, Alexander's "Instructions to Novosiltsov"; and if the result is less favorable to the idealism of England than to that of a Russian Tsar, it is but a tribute to Mr. Phillips's impartial presentation of historical facts.

CARLTON HAYES.

Ideas of Political Representation in Parliament, 1651-1832. By PHILIP ARNOLD GIBBONS. Oxford, B. H. Blackwell, 1914.—vi, 56 pp.

Since George Wingrove Cooke published his *History of Party*, nearly eighty years ago, no comprehensive and authoritative history of political parties in England has been attempted. Cooke carried his study down to the Reform Act of 1832. There is an obvious need for a history of parties from 1832 to the incoming of the Labor and Socialist groups into the House of Commons at the general election of 1906, much on the model of Cooke's three volumes that were published in 1836. It may be that the task is already in hand. If so, the author of the new history must be finding much help of a kind that was not so generously available at the time Cooke wrote; for there is today quite a large library of books on different phases of English party history. These books, most of them written within the last thirty or forty years, are concerned with the Whig and Liberal, the Tory and Conservative, and the Labor and Socialist parties at particular stages in their existence, or with the principles of these parties as they were manifest when some great political question was agitating the country and demanding settlement.

Mr. Gibbons's *Ideas of Political Representation in Parliament* is of this class, and it is an excellent example of the material that is awaiting

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the next historian of political principles and political parties in England. The beginning of the movement for the reform of the representative system that achieved its first permanent success in 1832 can be dated from the reign of Elizabeth; for Wylson, Elizabeth's principal secretary of state, urged upon the Queen that reform was then overdue. Mr. Gibbons takes Cromwell's sweeping but short-lived reform of the House of Commons—the reform that Clarendon declared was worthy of a better time—as his starting point, and examines with interest and clearness the ideas as to representation that were held from the Restoration to the American Revolution by the parliamentary leaders and the writers of the Whig and Tory parties.

Radicalism in English eighteenth-century politics was an outgrowth of the American Revolution, although the term radical as applied to political thinkers and a political party did not come into use until three or four years after the outbreak of the French Revolution. Mr. Gibbons dates the birth of Radicalism a little earlier than the American Revolution. He attributes it to the formation of the Bill of Rights Society in 1769. Radical ideas on representation, as Mr. Gibbons shows, went much beyond those of the Whigs. They were based on the conviction, strongly held by Radical parliamentary reformers like the indefatigable Cartwright, that the greatest stake in a country with representative government is not wealth and property, but wife and children. Mr. Gibbons makes clear that what really distinguished reformers of the school of Cartwright from the Whig reformers was the comprehensiveness of their schemes, which implied not only a desire to reform abuses, but a definite democratic theory on which reform was to be based.

Mr. Gibbon's book differs from all other studies of party history, or aspects of party history, in that it is concerned with ideas that were discussed over a long period; for it was nearly a century and three-quarters before any of the ideas and principles that Mr. Gibbons examines were embodied in an act of Parliament. Mr. Gibbons showed much originality in the choice of his subject; and his successful presentation of it suggests the desirability of other monographs on similar lines. The ideas of Whigs and Tories, Liberals and Conservatives, on such questions as the Established Church, taxation, the state and education, the House of Lords, and colonial policy, could all be profitably examined in the spirit and style of *Ideas of Political Representation in Parliament*.

EDWARD PORRITT.

HARTFORD, CONNECTICUT.

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Dissenting Academies in England. By IRENE PARKER. Cambridge, at the University Press, 1914.—xii, 168 pp.

Miss Irene Parker's monograph on the *Dissenting Academies in England* from 1662 to 1800, deals with a hitherto neglected phase of English eighteenth-century institutional history. It is of more than usual interest, as much for what it suggests as for what it unfolds. All the academies whose histories are traced by Miss Parker came into existence directly or indirectly as a result of the Act of Conformity of 1662, which caused the ejection of hundreds of educated and conscientious men from benefices in the Church of England and from the teaching staffs of the colleges at Oxford and Cambridge. Many of these men established small academies as a means of livelihood. Worried and harried as these men were by the Five-Mile Act of 1665, most of the academies they established flourished, because the education they offered was superior to that of the grammar schools which were of the established church.

The academies in existence between 1662 and 1800 are divided by Miss Parker into three groups: those which were established between 1662 and 1690; those which flourished from 1690 to 1750; and those which survived to or beyond 1800. In the first group there were twenty-two academies, all conducted by ejected ministers. The educational work in them was similar to that of contemporary grammar schools, though more thoroughly done. In the second group there were thirty-four academies. These were on a more ambitious scale than their predecessors; there were more teachers and the institutions had better financial support. They were, moreover, not the individual undertakings of the men who conducted them, as were the academies of the first period. They were established, supported, and to a certain extent supervised by central organizations in which pastors and laymen of the nonconforming churches had their part. They differed from the academies of the first group also in the fact that while those of 1662–1690 were classical, those of the 1690–1750 group were what Miss Parker, herself an educator, describes as classical-modern.

Early in the second period, there was gradually a strengthening recognition of the fact, dimly seen by the tutors of the earlier academies, that the aim of education in the grammar schools and universities—an education to fit men for the church or the law—was too narrow for the widening needs of English life. The academies of 1690–1750 consequently adapted themselves to larger constituencies. They opened their doors to youths who, not aiming to become clergymen or lawyers, needed

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a good general education, with a knowledge of French or science as a preparation for commercial careers. In the third group of academies the teaching was continued on the broader lines of the academies of the second group. It was also conducted in accordance with university methods.

The most famous of the academies of this third group was that at Warrington, Lancashire, the distinctly Unitarian academy with which the names of Priestley, Enfield, Aiken, the elder Malthus, and Gilbert Wakefield are associated. In the last half of the eighteenth century the academy at Warrington was the most celebrated educational institution outside of Oxford, Cambridge and London. It had an enormous influence on English life—an influence which even yet, one hundred and sixty years after its establishment, has not come to an end. Miss Parker gives a detailed and informing sketch of Warrington Academy and of the work and influence of the tutors who were of its faculty from 1753 to 1783. It is the most complete history of the Lancashire academy that has been written, especially as regards its educational work and its influence on English education in the eighteenth century. The academy was worth all the research and care that Miss Parker has given to it; and the only regret in connection with her history of it is that she has overlooked Mr. Arthur Bennett's *Dream of a Warringtonian*, and the correspondence of W. E. Channing and Lucy Aiken, which was edited for publication in 1874 by Anna Letitia LeBreton. The chapter entitled "The Athens of England" in Mr. Bennett's monograph is devoted to the Academy and its place in Warrington life in the last half of the eighteenth century; and in the Channing-Aiken correspondence, many of the letters of Lucy Aiken to Channing recall life at Warrington Academy during the years that Dr. Aiken was a tutor there.

It has been remarked that Miss Parker's monograph is of value for what it suggests—for the vistas it opens up. Miss Parker appraises with judgment and accuracy the great service that these academies of 1662–1800 rendered to education in England. But the influence of the academies of the last period, that from 1750 to 1800, is traceable elsewhere than in the educational world. It is obvious in the movement for parliamentary reform of 1780–1832; in the development of the newspaper press from the end of the wars with Napoleon to the middle years of Queen Victoria's reign, in the new and beneficent era in the civic life of England that began with the sweeping-away of the old corrupt municipal corporations in 1835, in the anti-corn law movement of 1838–1846, in the industrial and business life of England from

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the middle years of George III to the beginning of the reign of Queen Victoria, and in English nonconformity and English Liberalism from the American Revolution to the division in the Liberal party over Gladstone's home-rule bill of 1886. In fact, a new history of England from the American Revolution to the last extension of the parliamentary franchise in 1884–1885 could be written with the dissenting academies of 1750–1800, and the Warrington Academy in particular, as the starting point. Miss Parker apparently realizes this; and there can be no reason why her success with the history of the academies should not be followed by the larger and more important work that her book so unmistakably suggests. It is suggestive of the change that was coming over English religious and social life in the past thirty years—of the dying-down of the old feuds between the church and nonconformity—that Miss Parker's history of the dissenting academies bears the imprint of the University Press of Cambridge.

EDWARD PORRITT.

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Les Origines de l'Influence Française en Allemagne. Tome I, L'offensive politique et sociale de la France. By LOUIS REYNAUD. Paris, Honoré Champion, 1913.—xxxix, 547 pp.

Is German *Kultur* after all a gift of the Celt? This is the implication of this learned and exhaustive survey of the origins of Germanic civilization as seen from the angle of a Celtic scholar. From the dawn of pre-history down to the heart of the Middle Ages, everything worth mentioning in the society, religion, literature or customs of the Germans was borrowed, stolen or otherwise appropriated from their predecessors and superiors in culture.

At first sight the book is absurd. Upon examination, however, and making all allowances for special pleading, it stands out as one likely to cause a real reconstruction in the common perspectives of European history. That perspective, when one comes to think about it, has been fastened upon us largely by German scholars, and the "scientific" work of those masters of historical technique has often been highly subjective and impressionistic in spite of the elaborate research upon which it is built. Through it all the trend has been to make the history of Europe concentrate upon the Germanic elements in the story. As a result of their work, even school text-books used in America rather generally give the impression that the main line of European history in the Middle Ages is that which deals with the Empire, especially when the emperors have disputes with popes. The story of France or England

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or the development of city life has a tinge of the extraneous. Such a perspective is, of course, not shared in France or in England, but the weight of efficient German scholarship has done much to impress it upon us. But now, just as Fustel de Coulanges scored such a *revanche* on the German historians of Bismarck's day by denying the sacred ideals of their ancestors in the days of Tacitus and the invasions, Dr. Reynaud has offered a retrospective satisfaction for the present triumph of the enemy, in this first volume on the origin of the influence of France and the French upon Germany.

It is a massive work of genuine erudition, devoted mainly to the period from 950 to 1150, in which feudalism passed from the anarchy of barbarism to a social system capable of progress. This transformation of the feudal world forms the main subject of the book; but penetrating this theme is the story of the great Cluniac reform in the church in the tenth and eleventh centuries—a distinctively Gallic movement, according to the author—which receives large emphasis as the most significant event in the spiritual world in that dark age. The interworking of these forces from the clerical and secular world, their bearing upon the transformation of society in France and their subsequent influence upon Germany, forms the subject of an intricate and detailed narrative which only Gallic lucidity and direct thinking saves from being merely erudite. It is a narrative supported, as well, by copious footnotes showing control of every phase of the literature of the subject, both sources and secondary. The result is, apart from the obvious tendency of the book, an illuminating statement of the vital forces at work when the foundations of modern Europe were being laid. It is doubtful if the Dark Age has ever been more skilfully illuminated or vitalized. One only wishes that the story were told for its own sake rather than as a part of another narrative, however justifiable the theme; for in its intimate details—of which there is such a wealth—it is informing and valuable.

Perhaps the most suggestive section of the book, however, is the introductory sketch of the prehistoric and historic antecedents of the period studied. For here are massed the data of Celtic archaeology and philology which deal with the great age of Celtic expansion before Romans on the south and Germans on the north came in upon the brilliant civilization of La Tène. The account of that prehistoric culture is hurriedly sketched, but it is sufficient to disturb seriously the reader of the older narratives. It is a pity, however, that such a survey should be marred by a tendency to overwork the data—as for instance when the wonderful bronze cultures of Scandinavia are ignored when

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they contradict passages of Caesar or Tacitus which are to the author's purpose when describing the primitive character of German society and attributing all advance to Gallic models. It was only natural that the early Germans should receive most of their culture through the Celts, since the latter occupied the territory between them and the Mediterranean, not merely Gaul and North Italy, but Switzerland and South Germany, Bohemia and the central Danube valley as well. Whether the Germans took even their worship of Wodin and most of the rest of their mythology from the Gauls or not—receiving the suggestions for Nordic saga and early Germanic verse from Ireland—the presupposition that only Celts invent while Germans are capable of nothing but imitation is based on that old fallacy concerning the hereditary endowments of races in history which goes back to the day before anthropology was in existence, when race was a term in comparative philology. In this one detects the influence of that venerable master of Celtic philology, M. d'Arbois de Jubainville. The work of Camille Jullian and recent archaeologists, such as one finds a partial guide to in the last volume of Déchelette's manual, would have given sounder basis of judgment.

J. T. SHOTWELL.

Manuel d' Archéologie, Préhistorique, Celtique et Gallo-Romaine. II, *Archéologie celtique ou Protohistorique, Troisième Partie, Second Age du Fer ou Époque de la Tène.* Par JOSEPH DÉCHELETTE. Paris, Auguste Picard, 1914.—viii, pp. 911–1669.

This book has now a tragic and personal interest. Just as it appeared from the press, word was received of the heroic death of its distinguished author in the trenches by the Marne. His work had just been completed, in so far as this section of his manual is concerned, and he leaves a monument not only to his memory but to the achievement of French scholarship. Yet it was not completed in another sense. For apart from the fact that the Gallo-Roman portion remains unpublished, the mass of evidence which has been accumulating in the prehistoric field renders any survey antiquated in a short time, and the author was already expanding and filling up his earlier volumes with additional appendices while the volumes themselves have grown almost beyond manageable size. All that one can say is that this manual covers with remarkable care and with masterly treatment the materials known to archaeologists, in the broad field with which it deals, down to the outbreak of the present war. However, as it is doubtful whether any excavation is now under way in France for the recovery of pre-

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historic remains, Déchelette's work will probably assume a more permanent character than otherwise.

It should be said, for those who have not been following the discoveries in the prehistoric field, that Déchelette's manual, begun in 1908, of which this is the third part of the second volume, is the best single work of reference to both materials and literature in any language. The earliest sections, dealing with the early stone age, need to be rewritten now; but the survey of material up to seven years ago is given in clear form and with sober comment. Déchelette was not writing literature; but he was supplying the suggestion for more imaginative reconstruction than has taken place in our day in any other field of history. His volumes were a sort of museum display of the fragmentary evidence of the unrecorded ages of western Europe; and through such patient labor as his the record may sooner or later be partly written.

The present volume covers the period known as "*La Tène*" iron age, or, loosely, that stretching from about 500 B. C. to the Christian era. The technical term *La Tène* is derived from the locality, along Lake Neuchatel in Switzerland, where the most typical remains of the period were first discovered. As the excavations proceed, however, and the remarkable uniformity of this stage of Celtic culture is established, with companion pieces from Silesia and Hungary to match those from the Ile de France, the name first given to the age seems inappropriate and will, let us hope, be ultimately replaced by one more suggestive to the historian than this, which is so narrowly archæological—somewhat the same way as the term Mycenæan has given way in early Greek history. What we are really dealing with is the Celtic art and society at its height—in the days, that is, before Roman engineers made over the old Gallic roadways (for they often used the same routes) for the definite Romanization of Gaul. Those who imagine Caesar as the first white man who entered the fastnesses of Gallic savages will find here ample evidence—in the rich gold and silver ornaments, the mirror, andirons, mills, household effects, agricultural implements etc. —to reconstruct their historical imaginations. Some day this material will be worked over into histories in such a way that text-books can handle it; but we must first recognize the legitimacy of social history. It is not possible to go into a detailed examination of this work. Enough has been said to indicate that it is indispensable in every reference library and should be consulted by all students of European history.

J. T. SHOTWELL.

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Out of Work: A Study of Unemployment. By FRANCES A. KELLOR. New York, G. P. Putnam's Sons, 1915.—xiii, 569 pp.

The initiation both of immediate and long-time programs of constructive action is the primary purpose of this book. Some limitation, therefore, must be set upon so unwieldly a subject as unemployment. So far as practicable, it is treated as a problem of industry, and limited to those who are able and willing to work [page 28].

Setting out with this purpose, the author scans unemployment in America and concludes:

There is still to be set forth for this country an analysis of conditions which will establish indisputably the causes of unemployment [page 30] . . . America has an unemployment problem industrial in its nature. The problem is without definition. . . . There is but little data by which to gauge its character or extent. Its causes are obscure, its remedies inadequate [page 32].

The book then proceeds to a discussion of "Unemployment among Women," "Children and the Labor Market," and "Immigration and Unemployment." This is followed by an excellent little chapter on "How America Markets its Labor," which is introductory to long and detailed descriptions of general labor agencies, intelligence offices, employers' and unions' labor bureaus, philanthropic and public employment offices, and the regulation of private employment agencies. A statement of the experience with emergency measures under the title "What America does for it," and a description of foreign systems of unemployment insurance complete the general discussion of the problem. The concluding chapter presents "A Program for America."

In these chapters there is a mass of material on all manner of subjects. There is no connecting thread of analysis or argument, and it is safe to say that as much space is given to descriptions of labor in employment as out of it. Just why the book was named "Out of Work" is hard to understand. It might with equal fitness have been named "In Work."

The author's purpose as expressed in the first paragraph of this review is nowhere carried out in the book. Instead of a carefully devised program with its various parts knit together into a consistent scheme, a list of more or less related recommendations is presented for adoption by churches, civic bodies, employers, trade unions, municipal governments and state and federal authorities. The program amounts to an enumeration of all the schemes that have been attempted at

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various times to relieve unemployment. No serious effort is made to sift out the things that have proved undesirable, and to work into a program only that which has proved its worth by experience.

Nor is the author successful in setting limits to the problem of unemployment which she considers "so unwieldy a subject." The expressed purpose of limiting the discussion to those able and willing to work is lost sight of, and problems of charity, fraud, corruption, peonage, sanitation, housing, and working and living conditions generally, are confusingly considered together with unemployment *per se*, which, it is agreed, is industrial in its nature.

The author deplores the fact that America has never analyzed the causes and factors of unemployment, but makes no consistent attempt herself to do this. There is plenty of material in the book to establish valuable conclusions if it were properly classified and analyzed. The classification is not made, however, and the author is unable to master the details. The book abounds in facts of no particular significance to the problem in hand, such as the details of civil service laws, the operations of a prison association and the domestic problems of housekeepers. The same subject is discussed under different chapter headings, and irrelevant illustrations are extended at length seemingly because the stories themselves are interesting.

The conclusions developed by the book are either negative or they are so general as to be of no particular value. We are told that any solution of unemployment that concerns itself only with men and overlooks women will fail, that the general labor agency is an anti-social organization, that public employment offices have failed to organize the labor market, that American remedies for unemployment have had little or no influence over its causes, and that foreign systems of insurance are not especially adaptable to this country. Then, vocational guidance should be given every possible encouragement, the padrone must go intelligence offices must be made efficient, clean and reliable, business and labor must organize the skilled labor market, uniform state laws and the regulation of interstate labor agencies are needed, and a commission or central committee is needed in every community to work out the problem of supplying work, food and shelter.

As a discussion of woman and child labor, immigration and immigrants in America, employment agencies and other labor problems, the book will be found most interesting. As a contribution to the study of unemployment it has little value.

WILLIAM M. LEISERSON.

TOLEDO UNIVERSITY.

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Woman's Work in Municipalities. By MARY RITTER BEARD. National Municipal League Series. New York and London, D. Appleton and Company, 1915.—xi, 344 pp.

This is primarily a book of facts—a collection of concrete instances of work done by women in the various phases of municipal enterprise, selected from cities large and small in all parts of the United States. In education, in public health, recreation, corrections, and so on throughout the list of specific departments which carry on the work of the modern city, Mrs. Beard has studied the situation to find out just what women have done or are doing. Her data has been obtained partly at first hand, partly from such periodicals as *The American City* and *The Survey*. The result is an impressive record of the scope and variety of women's public interests.

In their approach to public problems, Mrs. Beard shows clearly that women exhibit marked initiative and determination. They have been "inventors" as well as "routineers," as many an experiment in educational or social work bears witness. They tend to emphasize the need of reform or improvement, and underestimate the difficulties involved in meeting it—an attitude which has apparently been successful in getting good results. The author has deliberately and wisely refrained from the attempt to evaluate the part that women are taking in civic affairs. It presses upon page limits merely to give selected instances from the wide range of their activity, and the reader is left to draw his own conclusions. She has also avoided the spirit of propaganda. Facts are presented in a non-partisan manner not any too frequently met with in a day of "causes."

The subject matter will make its first appeal to those actively interested in civic affairs. They will find stimulus and suggestion in the broad and imaginative way in which women are dealing with these matters. For the wider circle of general readers, the book will rescue from its frequent vague generalization the rôle of women in American cities. Much importance has been attached to the obvious connection between the welfare of the family and the proper exercise of municipal functions. Civic affairs are often referred to as matters of essential interest to women and as a most appropriate field for their public activity. Mrs. Beard is the first, so far as we know, to attempt a summary of the movement as a whole and to show by exact illustration what women are doing in every phase of municipal activity.

EMILIE J. HUTCHINSON.

COLUMBIA UNIVERSITY.

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Colombia. By PHANOR JAMES EDER. London, T. Fisher Unwin, 1913.—xxiv, 312 pp.

Ecuador. Its Ancient and Modern History, Topography and Natural Resources, Industries and Social Development. By G. REGINALD ENOCK. New York, Charles Scribner's Sons, 1914.—375 pp.

Bolivia: Its People and its Resources, its Railways, Mines and Rubber-Forests. By PAUL WALLE. Translated by BERNARD MIALL. New York, Charles Scribner's Sons, 1913.—407 pp.

The reputation of the South American Series, to which the three volumes under consideration belong, has become of the sort that attaches to "standard authorities" in English within the limits of the field of description chosen. This field is primarily economic in character, one inviting an examination of not much more than the possibilities of material development. To the business man such books are quite indispensable; to the reader interested in phases of life and thought not concerned wholly with producing, buying, selling and carrying articles of trade, they bring a measure of disappointment.

Regardless of their individual merits or demerits, however, these particular examples of the series in question illustrate a defect that is noticeable in all of the volumes that have appeared since 1910—the lack of supervision that would have been supplied by a competent editor to succeed the late Martin Hume. While there is no reason to adopt a procrustean policy of treatment and there is every reason why each country should be differentiated, so far as necessary, from its fellows, in the interests of a fair amount of orderliness and uniformity it would seem desirable to have the mode of handling the main topics at least follow some kind of a common plan. A general editor, also, might have selected his authors, in certain cases, with greater regard to fitness than to availability.

How the dominant purpose of the publishers of the series restrains the ability and the willingness of an individual author to deal comprehensively with a given country is shown clearly enough in the case of Mr. Eder and his account of Colombia. The treatise provides an admirable description of just what the business man ought to know about that republic, and its story is told in the pleasing language of readableness. It is aptly illustrated, has two useful maps and possesses the especial merit of a good bibliography appended in topical form. Yet the reviewer, whose professional affiliations with commerce are scant,

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but whose appetite has been whetted by the scholarly introduction, remains hungry when he turns the last page of the work. While not so full as it might be in depicting social and ethnic conditions, the volume serves better than do its companions in distinguishing the country under discussion from the other Latin-American states. It awakens a keen desire, furthermore, that the author may some day round out the study by converting what he has had to make the frame of his picture into the picture itself.

Mr. Enock's contributions to contemporaneous literature on the Latin-American republics, and in particular to the present series, are so familiar that a characterization of any of his earlier works suffices to explain the form and content of what he has now written on Ecuador. An engineer by profession and a polygraph by inclination, he sets forth his impressions and opinions with a facility that is abundant and a profuseness of rhetoric that is a bit cloying. His book happens to be the only treatise in English on the subject which can lay claim to anything like elaborateness, and for that reason at least is of value. No bibliography is vouchsafed, and the only map is mediocre. The omission is singularly unfortunate in view of the fact that Ecuador is even less commonly known than Colombia. That in the footnotes the author has seen fit to make numerous allusions to his own productions is no compensation.

M. Walle's book on Bolivia supplies an entertaining and instructive account of that republic. Well translated as it is, the work would have been more serviceable to English readers, perhaps, if the interpretation it offers had been conveyed by some one equally equipped but whose mother tongue was English. Four of the five maps are printed in French. No bibliography is given, despite a scarcity of knowledge about Bolivia which is second only to that about Ecuador.

WILLIAM R. SHEPHERD.

The Socialists and the War. Edited by WILLIAM ENGLISH WALLING. New York, Henry Holt and Company, 1915.—xii, 512 pp.

It was Rosa Luxemburg, the militant Socialist, who recently declared that Marx and Lasalle had trained the German proletarian in order that von Hindenburg might lead him. Not less significant than the collapse of the peace movement was the moral breakdown of the German Social Democrats, who repudiated their very reason for existence by entering the war against their "brother" workmen in Europe.

Instead of merely stringing together a lot of naked documents, Mr.

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Walling has, by judicious editorial comment, woven into a coherent volume a wide variety of original Socialist opinions on war from Karl Marx to Bernard Shaw. The book is therefore a unique instance of a collection of documents that reads like a continuous narrative.

Mr. Walling opens with a striking prophecy of Marx made three days after Sedan, that "the war of 1870 bears within its womb the necessity of a war with Russia"; that the annexation of Alsace-Lorraine would lead Germany "to prepare itself for a new 'defensive' war, not one of those newfangled 'localized' wars, but a race war, a war with the united Slav and Latin races." What Socialists would do in case of a general European conflict was a constant theme for discussion at Socialist congresses. At the International Congress of 1907 at Stuttgart, a resolution introduced by the French delegates calling for a general strike and insurrection to prevent a European war was watered down, through the influence of the German delegates, to a vague statement that wars are the fruit of Capitalism and that Socialism alone would bring permanent peace. Two weeks before the outbreak of the present war the following resolution, supported by Jaurès, was adopted by a French Socialist Convention:

> The French Party considers the spontaneous general strike of the workers of all countries, combined with anti-war propaganda among the masses, as the most workable of all means in the hands of the workers to prevent war and to force international arbitration of the dispute.

On the subject of voting war credits, the International Congress of 1910 had declared that it was the duty of Socialist representatives "to refuse the means for armaments." Nevertheless, the probability of a general European outbreak, after Germany's diplomatic defeat in Morocco, influenced the Socialists to vote for the military budget of 1913, which greatly increased the peace footing of the German army. As this action was unprecedented, they apologetically declared that it was because the burden of expense would fall on the wealthy classes through the new direct income and property taxes of the law.

Most of Mr. Walling's book is devoted to the views and actions of Socialists at the outbreak and during the war. He has succeeded in extracting from an overwhelming mass of articles, speeches, manifestos, declarations, books, pamphlets and interviews many striking illustrations of the Socialist attitude in every country, neutral as well as belligerent. At the outbreak of the war the Socialists of all countries demanded peace. In Brussels there was a stirring demonstration against war organized by the Socialists, at which Haase, the German, warned Ger-

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many to restrain Austria, and Jaurès, the Frenchman, warned France to restrain Russia. On July 29, 1914, there were huge mass meetings of Socialists in Berlin to demand peace. The organ of the Social Democrats, the *Vorwärts*, bitterly denounced the German government for playing a dangerous game, accused it of predetermining war and openly hinted at "an inner Jena" or revolution.

What then caused the German Socialists suddenly to desert their peace principles which they had proclaimed so fervently for over a half century? The answer is, "Russia." "It devolves upon us," declared their official spokesman, Haase, in the Reichstag, "to avert this danger, to shelter the civilization and independence of our native land." That the Russian spectre has ever been present before German eyes, Socialist and non-Socialist, cannot be doubted. Yet in the light of the great victories of von Hindenburg over the Russian armies, it seems hard to believe that the German General Staff was at any time seriously concerned about Russian military prowess. And now that Bulgaria has definitely taken the side of the Teutons, what becomes of Pan-Slavism, which was to engulf western civilization? It is therefore not unreasonable to assume that, to some extent, the Russian spectre was conjured up in order to justify the daring plunge of Junkerdom into a world war. Did it not serve the efficient purpose of unifying the German people by giving them a much-needed battle-cry—to defend German civilization against Slavic barbarism! German diplomacy, discredited elsewhere, succeeded marvelously well with the Germans.

Once the mother party voted for war, there was nothing else for the Socialists of the other countries to do but to defend themselves. A bullet from a German Socialist rifle would kill a French "comrade" as easily as one from any other. In France, Jules Guèsde, the life-long opponent of compromise with the "bourgeois state," entered the Cabinet. "The solidarity of workmen," he declared, "does not shut out the right to defend themselves against traitor workmen." In England the Labor party sent a representative into Mr. Asquith's Cabinet to make war "against German autocracy." In Russia and Italy, where Socialism is weakest, it was boldest; for both the Russian and Italian Socialists voted against the war credits. Austrian Socialists of course followed the German lead. And so the great labor international, which for so many years had preached that workingmen had no country, and which up till now had given so many proofs of solidarity, became a mass of strewn wreckage on the rocks of nationalism. Evidently the working class of Europe thought that they had something to lose beside their chains—namely, their nationality.

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This turn of affairs sent confusion into the ranks of the German Socialists and they naturally sought refuge in dialectics. Many, among them Karl Kautsky, the well-known spokesman of the orthodox Marxians, have declared that the Socialists of all countries are right in supporting their governments, for every nation is fighting a *defensive* war; that is, the Allies are defending themselves against the Germans and the latter are defending themselves against the Allies—hence both are innocent of attacking anyone. To read the German Socialist manifestos would have delighted the heart of Alice in Wonderland. In Mr. Walling's opinion, the minority of fourteen members who voted against the war credits in the caucus of the Social Democrats, representing about a half-million electors, were the only simon-pure Socialists in Germany.

Mr. Walling's volume is an indispensable addition to any war library. It contains not only a digest of Socialist opinion but the peace programs of the various Socialist parties and an account of the State Socialist measures adopted by the belligerent nations.

J. SALWYN SCHAPIRO.

THE COLLEGE OF THE CITY OF NEW YORK.

J'accuse. Von einem Deutschen. Lausanne, Payot et Cie., 1915.—378 pp.

I Accuse. By a German. Translated by ALEXANDER GRAY. New York, George H. Doran Company, 1915.—445 pp.

In this book the responsibility for the present world war is placed squarely upon the Austrian and German governments, and in much larger measure upon the government of Germany than upon that of Austria. As far as Germany is concerned, the ultimate responsibility is thrown chiefly upon the Prussian *Junker* class, which furnishes a larger supply of military officers than any other class in Germany and is distinctly militaristic in its tendencies. This class saw its social position and its political power menaced by the growth of wealth in the middle class, and desired war to reëstablish its influence. Its efforts were aided by a growing body of expansionists and dreamers of world empire, largely recruited from the middle class and extensively represented among university professors and popular writers. Support for an expansionist policy was secured in industrial and financial circles by creating and fostering the belief that the economic development of Germany was fatally restricted by its limited territory, and by the systematic opposition of rival states. All classes, including the labor-

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ing class, were prepared for war by instilling into the popular mind the belief that Germany's rivals, particularly England and France, were awaiting the first favorable opportunity to attack and crush Germany, and that these nations had leagued themselves with Russia in order to utilize that empire's enormous potential military resources. The pan-Slavic peril was purposely exaggerated in order to create the impression that Germany would soon have to struggle for its existence.

The German Emperor, according to the author, desired to maintain peace, but was finally overpowered by the war party. The German Crown Prince was "the battering ram" used by this party to break the resistance of the Emperor.

In the author's opinion the contention that Germany needed war for its full economic development is wholly baseless. His argument on this point is admirable. Equally baseless, in his opinion, is the assertion that the Triple Entente contemplated any attack upon the central empires.

It is the author's belief that the central empires are sure to be defeated. As a German patriot, he regards those who have led Germany into a mad and hopeless adventure and who have brought upon Germany, as well as upon Europe, the enormous sacrifices of life and of property, the incalculable suffering and misery entailed by this greatest of wars, as criminals who should be held strictly to account. He calls upon German people to rid themselves of the semi-absolutist system which its present constitution maintains by organizing German government on democratic lines. Then only can Germany be a trustworthy member of a universal league of peace.

Apart from the nationality of the author, this book could not have failed to attract attention by the skill with which the evidence is marshaled and the energy and warmth with which the argument is presented. Naturally, however, the statement that the author is a German has secured for the book prompter notice and wider circulation than it would otherwise have obtained. Naturally, again, the question has been raised by Germans and German sympathizers whether the anonymous author is indeed a German. Such a doubt, in the reviewer's opinion, is unwarranted. Apart from the fact that a well-known Swiss scholar, Dr. Anton Suter, certifies to the nationality of the author and assumes the responsibility of publication, the book bears witness in its style, which is not only idiomatic but extremely personal, to the German origin of its writer. To the reviewer it seems clear also, from turns of phrases and from local allusions, that the author is not only a German, but a North German; and it seems probable that he has spent a

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part of his life in Berlin. It is also clear that he is a man who has enjoyed a German university education and whose profession is the law.

The book is not written in a judicial tone. It presents the case against the German government in the tone of a prosecuting attorney, and it resembles an address to a jury rather than an argument before a bench of judges. If it reaches any great number of German readers—a result which the German authorities are said to be doing their utmost to prevent—it may be doubted whether, in the present attitude of the German mind, it is likely to make many converts. It would have been more likely to accomplish this end if it had been written with equal sorrow and with less anger. After the war, however, it may produce a greater effect.

The translation is faithful and reproduces with unusual success the tone of the original work. It is odd, however, that Fenimore Cooper's hero has not been identified by the translator but masquerades in the English version as "*Lederstrumpf*" (page 15). And it is surprising to learn that the German Crown Prince appeared in "the tribune" of the Reichstag (page 43); for we use this word, as the French use it, to designate a stand for speakers rather than a gallery or box reserved for visitors. Misprints occur, but the reviewer has noticed only one that is destructive of the meaning, viz., "Greek Asiatic power" (page 36) for "great Asiatic power" (*asiatische Vormacht*).

MUNROE SMITH.

The World Crisis and Its Meaning. By FELIX ADLER. New York and London, D. Appleton and Company, 1915.—233 pp.

Dr. Adler makes a notable contribution to the discussion of the all-pervasive topic of the present European War, its meaning and consequences. He does not share either the hopes of those who think that the horrors of the conflict will cause war to be abandoned or the despair of those who see in the struggle the end of civilization. He sees clearly that, if war is to be done away with, the disease that causes it must be recognized and cured. Militarism is not the malady. Militarism, as he affirms, exists "wherever the preparation for war has become a regular business." It is only a symptom of the disease, not the disease itself. In this relation Dr. Adler points out the disproportionate amount of time spent upon preparation for war under modern conditions, as compared with the time required under earlier conditions. In earlier times, when the machinery of war was simple, preparation could be made quickly. In recent times, with the development of

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scientific methods, this cannot be done. The development of war preparedness is comparable with the development of industrial preparedness. "The machine gun is the counterpart of the machine loom." In this sense, nations have become the victims of science. How are they to shake themselves loose from the system?

Militarism can, as Dr. Adler contends, be broken only by an inner spiritual change—a new ideal of human brotherhood and a new conception of justice. The theories advocated by pacifists before the great war began have broken down. All these theories fell before the force of nationalism—the clash of types, each fighting for its supremacy in the belief that on its supremacy depends the existence of the mental pattern which it cherishes above all else. In this way the right to be different, recognition of which is essential to the peace of the world, is denied or altogether lost sight of. In this view the reviewer finds himself in entire harmony with Dr. Adler. There can be no doubt that the passion for uniformity is the mainspring of much of the world's destructive strife.

Dr. Adler does not overlook the fact that there exists a strong military party in the United States, working, as he says, for the most part secretly, but sometimes, as at present, much in evidence. Its members argue not only that war is desirable in itself as a means of preventing mankind from sinking into sloth and ease and materialism, but also that, even though peace were preferable, yet as a lasting and righteous peace has hitherto been unattainable, extensive preparations for war must be made. As an antidote to these doctrines, Dr. Adler declares that we need new moral concepts. In the first place, there must be a clear recognition of the right to be different. Germany, exemplifying efficiency, discipline and a certain religious mysticism; England, exemplifying political liberty, qualified or accompanied by the idea of the social predominance and political influence of the masterful man; and the United States, exemplifying the idea of a republic built "on the uncommon fineness in the common man"—each of these types contains something by which the others may be enriched. In order that this may be done, there must be cultivated the spirit of good-will, so that the aversions provoked by mere differences may be overcome and the element of good in different things be discerned and preserved.

Another favorite idea of Dr. Adler's is that of an international congress, representing all classes, including laborers, manufacturers, men of commerce, agriculturalists and delegates of the universities. In this way, he thinks that something might be done to prevent the misuse of civilization for purely selfish advantages, such as are indicated

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by the phrases commercialism, industrialism and imperialism. Society must be reformed on ethical lines, and the reform must permeate all the relations of life. Society being the great organization, the chief industries should constitute minor organic groups, and in each industry, as in the steel industry, for instance, there should be an industrial parliament of the trade, in which each worker should have a vote. In order to bring about such a reform, each man should try (1) to take part in movements for social betterment, (2) to release the imprisoned mentality of workers, and (3) to labor towards organized democracy by introducing constitutionalism in industry as a bridge.

J. B. MOORE.

Samuel Henry Jeyes. By SIDNEY LOW and W. P. KER. London, Duckworth and Company, 1915.—viii, 280 pp.

In the last half of Queen Victoria's reign most of the striking personalities in English journalism were of the Liberal party. There are fairly adequate records in book form of the work of these men; but with the exception of the memoirs of Lord Glenesk of *The Morning Post*, and the autobiographic papers of Mr. T. E. Kebbel, so long of the editorial staff of *The Standard*, there are no books that throw much light on the Conservative journalism of this period, or on the work for Conservative principles and the Conservative party that was done by men like the late Frederick Greenwood, of the old *St. James's Gazette*, and Mr. W. H. Mudford, who was editor of *The Standard* in its most effective days. The late Mr. Jeyes, known on this side of the Atlantic only from his contemporary studies of Rosebery and Chamberlain, was assistant editor of *St. James's Gazette* from 1888 to 1891, and assistant editor of *The Standard* from 1891 until his death in 1911. In Mr. Sidney Low's memoir of his colleague there are admirable descriptions of the inner working of two of the most important London Conservative newspapers in the period from the division in the Liberal party in 1886 over Home Rule, to the division that came in the Conservative party when Chamberlain began his propaganda for protection in 1903.

Peculiarly valuable as a contribution to the political and social history of England are Mr. Low's description of London journalism in 1888—the year in which Jeyes joined *The St. James's Gazette*—and his analysis of the reading constituency *The Standard* in 1891, when Jeyes was appointed assistant editor to that once famous and influential journal. Great changes have come over the London press since 1896, when the era of Harmsworth and Hulton began, changes that are due in part to the forty-five years' working of the elementary education system of 1870,

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and to the advent in London and all the large cities of the half-penny morning newspaper—changes that have, moreover, greatly curtailed the parliamentary reports and have subordinated, if not eliminated, the publicist-editor who figured so largely in English political life from the days of James Perry, of the old *Whig Morning Chronicle*, to those of Greenwood, of *The St. James's Gazette*. These changes now loom quite large in the political history of England. Hence students the world over are indebted to Mr. Low for his account of the work and position of the old-school London editor—the editor who was a publicist as distinct from a buyer of white paper and of the newspaper constituency that he served.

Jeyes never reached the dignity of editor. In this ambition he was the victim of one of the many tragedies of Fleet Street. He won a place, however, among the old school of newspaper publicists, and was worthy of Mr. Low's discriminating and sympathetic memoir. Part of the volume is occupied with reprints of political sketches contributed by Jeyes to *The Standard* after the downfall of the Conservative ministry of 1893–1905. These are of interest as indicating the attitude of Conservatives towards Campbell-Bannerman and the men of his cabinet.

EDWARD PORRITT.

HARTFORD, CONN.

Sir Francis Sharp Powell. By HENRY L. P. HULBERT. Leeds, Richard Jackson, 1914.—183 pp.

Letters and Character Sketches from the House of Commons. By SIR RICHARD TEMPLE. Edited by SIR RICHARD CARNAC TEMPLE. London, John Murray, 1912.—xxxii, 522 pp.

It is not necessary that a member of the House of Commons should have been on the treasury bench to make his memoirs of interest and value. Some of the most informing biographies in English political history are of men who never sat on the front bench either to the right or the left of the speaker's chair. Richard Garnett's *Life of W. J. Fox*, Sir Henry E. Roscoe's own account of his life and experiences, Charles Buxton's *Memoirs of Sir Thomas Fowell Buxton*, the *Life of Sir Edward Baines* which was written by his son, Sprigge's *Life and Times of Sir Thomas Wakley*, W. McCullagh Torrens's *Twenty Years in Parliament*, the Bonner-Robertson *Biography of Bradlaugh*, Sir John Mowbray's *Seventy Years at Westminster*, Arthur Miall's *Life of Edward Miall*, Aaron Watson's *Life of Thomas Burt*, and *Sir Robert Heron's Notes*, to name only a few of the many books in this

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class, are all exceedingly helpful if not indispensable to students of political and parliamentary history from the Reform Act of 1832 to the beginning of the great war in 1914. Each of the biographies or memoirs has some distinguishing characteristic that gives it permanent value. Each is concerned with some movement in the constituencies or in parliament, or with some aspect of life at Westminster, that has its part in the history of England, or represents a point of view that cannot be ignored by a student who would be thorough-going in his research.

All this applies equally to Dr. Hulbert's biography of *Sir Francis Sharp Powell* and to the late Sir Richard Temple's *Letters and Character Sketches from the House of Commons*. Neither Sir Richard Temple nor Sir Francis Powell was in the front rank of House of Commons members. There is nothing in the biography of Powell or in the letters of Temple to suggest that either of these men ever permitted his ambition to soar to the treasury bench. Sir Richard Temple went into the House after a long and distinguished career as a civilian in India at too late a time of life to realize any such ambition. Powell was first elected to Westminster in 1857; but he had active public interests outside the House of Commons—interest in the Established Church and in the particular type of elementary education for which the Church of England has stood for nearly a century—that would have made it impossible for him to accept office in the cabinet or ministry without abandoning work to which he had devoted himself with much thoroughness and self-sacrifice for some years before he was of the House of Commons. No prominent place can be assigned to either of these men in the political history of England; but the memoirs of Temple and the biography of Powell will be essential for any detailed and complete history of England from the reign of George III to that of George V.

Temple's letters and character sketches are of the period from 1887 to 1895, the years that immediately followed the great division in the Liberal party over Gladstone's first home-rule bill, when the Irish question was the dominant issue in the constituencies and at Westminster. There are in the memoirs one hundred and twelve sketches of Temple's House of Commons contemporaries. Most of them are enlightening; for they give Temple's impressions of the men who sat beside him or opposite him in the House. They are all interesting, for there was no political bitterness in his make-up and the place he held in the affections of the House is reflected in these notes on his contemporaries. Diaries and letters of members describing the House and its

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procedure and its business from day to day and from session to session are fortunately quite numerous. Some of them are as old as the sixteenth century; but this long series of sketches of men of the House written by a member is unique in Parliamentary biography.

Between 1852 and 1906 Sir Francis Sharp Powell fought no fewer than nineteen contested borough and county elections. He was defeated eight times, and once he was unseated on petition. He had a greater variety of election experiences than any other man who was of the House of Commons between the first reform act and the lords' veto act of 1911. Dr. Hulbert writes an admirable account of Powell's contest at Stalybridge in 1871—a really valuable account in view of the fact that the election was one of the last under the old system of nomination at the hustings and open voting. Powell, as Dr. Hulbert describes him, was "one of the most patient and indomitable wooers of the suffrages of the English people who ever lived." But it is neither Powell's election experiences nor his continuous and arduous work on committees of the House of Commons, interesting as these are, that gives the book its chief value. Its value lies in the fact that it is the biography of a man born to great wealth, who on leaving Cambridge at the age of twenty-three realized that his wealth brought great responsibilities—and that he owed something to his country and to the civilization into which he was born; and in discharge of the responsibility he determined to devote his life to unpaid public service.

Powell, in addition to his work in Parliament and for the Church of England and elementary and secondary education, served continuously as a magistrate and as a member of a board of guardians for the relief of the poor. His life was as crowded with activities as the life of a great banker, a merchant or a manufacturer, and his vacations ordinarily were no longer than those of men in commerce or manufacturing. Dr. Hulbert's life of Powell is well written and quite interesting reading; while it cannot be described as an ambitious book, it is unique among English political biography, for I know of no other biography which portrays so adequately the life of a man whose whole career was devoted to service in Parliament and in so many departments of local government. In a word, Dr. Hulbert's life of Powell sets forth much that is abiding and beneficent in the public and parliamentary life of England; and for this reason it makes an appeal that will extend far beyond Westminster or the counties of Lancashire and Yorkshire which for sixty years were the scene of Powell's active public career.

EDWARD PORRITT.

HARTFORD, CONNECTICUT.

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Memoir of Thomas Addis and Robert Emmet, with their Ancestors and Immediate Family. By THOMAS ADDIS EMMET. New York, The Emmet Press, 1915.—Two volumes; xlvi, 589 pp.; xv, 644 pp.

Judged by actual results achieved in Ireland during the lifetime of Thomas Addis and Robert Emmet—whose biographies Dr. T. A. Emmet has written on a profusely generous scale—the fame, enduring and world-wide in its reach, that has accrued to the Emmets seems at first contemplation difficult to understand. It is difficult at first sight to find a basis for it, because the rebellion of 1798 and the still more hopeless rising of 1803 were complete and sombre failures from the point of view of the advancement of the nationalist movement from the American Revolution to the end of the reign of George III. Thomas Addis Emmet was concerned in the rebellion of 1798, and for him a life in exile in the United States was the result. Robert Emmet, at the age of twenty-five, sacrificed his life to the equally abortive rising in Dublin that came three years after the union. The explanation of the fame of the Emmets, especially that of Robert Emmet, would seem to lie largely in the inspiration to the nationalists—to three generations of Irishmen and Irishwomen in Ireland and elsewhere—that flowed from the services and sacrifices of the Emmets in 1798 and 1803.

In the history of the movement for Irish constitutional and political freedom that went on from the successful agitation for the repeal of Poynings's law—the medieval enactment that crippled the Irish Parliament from 1495 to 1782—to the triumph of the home-rule movement at the end of the parliamentary session of 1914, no names stand out more radiantly than those of Thomas Addis and Robert Emmet. Grattan, O'Connell, Butt, Parnell and Redmond, all achieved in concrete results much more than the Emmets; but part of the achievement of each of these nationalist leaders, except Grattan, was due to the inspiration diffused among Irish people the world over by the sacrifices made by the Emmets. When it is recalled that the Emmets were not of the religious faith generally professed by the Irish, that the Emmet family in the eighteenth century was of the garrison of English ancestry, and that Dr. Emmet, the father of Thomas Addis and Robert, was long a state or court physician in Dublin and thus of the Irish governing class, and of an official and social position that might have ensured many advantages to his sons in their professional careers, the sacrifices made by the Emmets in the risings of 1798 and 1803 would seem to be almost without precedent in Irish political history.

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The Emmets were of a type not common in nationalist politics until Parnell organized the Irish party in Ireland and in Westminster in the years that immediately followed the extension of the parliamentary franchises in 1884–1885. They were men of high character; enthusiasts, courageous, and utterly devoid of self-seeking. In political agitation in England and Scotland their prototypes are to be found in Fyshe Palmer and Thomas Muir. But there was no romance associated with either of these eighteenth-century martyrs in the cause of parliamentary reform—nothing approximating to the Sarah Curran episode in the life of Robert Emmet. Moreover, the Emmets, as regards their fame, have had an advantage over Muir and Palmer in that their sacrifices were in the cause of a race that is proverbial for its long memories whether of good or of evil deeds.

Dr. Emmet's biographies are unusually full and detailed. They were a task on which he was engaged in field research and active preparation for fifty years. Personal equation, due to politics and family, is the dominating characteristic of the work; but with Ireland in sight at last of a parliament of her own again, a new interest attaches to the one hundred and thirty-four years' struggle for nationalism; and there is much in Dr. Emmet's pages, especially in the documentary data which is voluminously reproduced, that is helpful to the understanding of the spirit of nationalism as it was developed between the time of Grattan's parliament and the end of the Napoleonic wars.

EDWARD PORRITT.

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RECORD OF POLITICAL EVENTS

[From May 1 to November 6, 1915]

I. THE EUROPEAN WAR.

THE WESTERN FRONT.—Deadlock continued through the summer; for some reason the long-heralded spring drive did not occur. This inactivity seemed all the more remarkable because of the numerical superiority of the Allies (the Germans having transferred forces to the eastern front) and because of the relief which a successful forward movement would have brought to the hard-pressed Russians. The Germans, indeed, took the initiative at the close of April. They directed against the Ypres region an attack in which massed artillery and poisoned gas played a conspicuous rôle. The British, suffering from the lack of artillery ammunition, had to shorten their line by three miles on May 3. The character of these engagements, which lasted intermittently for several weeks, showed that the Germans now intended to hold their lines with fewer men and more guns, keeping the enemy at a distance and fighting a long-range battle. In June the French made some progress in the country north of Arras and west of Lens. Something like a quarter of a million men were employed along a front of twenty miles, the assault being preceded by a concentrated artillery fire which flattened the whole country-side. The highway between Arras and Bethune was cleared; more prisoners and guns were taken than on any occasion since the battle of the Marne; but the French themselves lost heavily, 74,000 according to Berlin reports. The British, who now numbered about 440,000 and held a line of thirty miles, attempted to exercise helpful pressure about La Bassée; owing to shortage of artillery, their losses were enormous. In July the Germans managed to advance a little nearer to Verdun; the French extended their conquests in Alsace somewhat. As the months went by the resources of the Allies steadily augmented. Large stores of munitions arrived from America and from the reorganized English factories. By the end of September Sir John French had a million men under his command. On September 25, after the German positions had been heavily bombarded for some days, a vigorous offensive was set in motion. The British, advancing east of Grenay and Vernelles, penetrated the German lines to a distance of 4000 yards and captured several strong positions, including Loos and Hill 70. The French made substantial gains in Artois; in Champagne, along a fifteen-mile front, they pushed through the lines of the enemy to a depth of two and a half miles. In the first two days 23,000 prisoners and 91 guns were taken. General Joffre had informed the troops, at the opening of the offensive, that it would be carried on without truce and without respite.

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By the end of September, however, it seemed to have spent itself. During the next month, except for some further progress in Champagne on October 7, the Allies did little more than hold what they had won.

THE EASTERN FRONT.—In May the course of military events in Galicia took a sharp turn in favor of the Central Powers. Their armies, with the prodigal use of high explosive, forced the enemy lines on the Dunajec and, advancing from the Carpathian passes as well as from the west, drove the Russians back on Przemysl. They took 300,000 prisoners during the first month of their offensive. The Russians, though winning important successes in eastern Galicia, were seriously handicapped by shortage of ammunition and could not hold their ground in the main theatre. They evacuated Przemysl on June 3, Lemberg on June 22, and, offering stubborn resistance as they gradually retreated, established a new front behind the Zlota and Dniester rivers. This brought the Galician campaign to an end. It had accomplished more than the mere deliverance of Austrian soil. Hungary had been saved from invasion, the vacillating Balkan states had been duly impressed, and the way was cleared for a considerable operation directed against Warsaw. This operation involved the cutting of the three railroads which connect Warsaw with Petrograd, Moscow and Kiev, respectively, and the capture of the Russian armies whose line of retreat had thus been closed. But Grand Duke Nicholas did not wait for the enveloping movement to succeed. On August 5, when the Austrians had severed his communications with Kiev and the Germans in the north had assailed Ossowetz and at the same time pushed towards Riga with the intention of reaching the Petrograd railroad north of the barrier fortresses, he evacuated Warsaw and took up a defensive position to the east. That his forces were drawn off practically intact was commonly regarded as a great military achievement. The Austro-German armies continued to advance. One after the other the fortresses of Kovno, Novo-Georgievsk, Brest-Litovsk and Grodno fell. But the Austrians, after taking Pinsk on September 15, found their offensive halted in that region, while in eastern Galicia they met with a series of defeats and sustained great losses. Similarly in the north, although Vilna fell on September 18, the Russians held the armies of Hindenburg along the Dvina from Riga to Dvinsk. Partly because the invaders had advanced so far from their base, partly because the defenders now possessed more adequate supplies of ammunition, the force of the offensive visibly declined. In October Hindenburg vainly pressed his attack on Dvinsk. It became evident that, while the Russians had lost hundreds of thousands of men in the continuous retreats of the past six months, their spirit and stubborn fighting qualities had not been impaired. With 2,000,000 recruits in training, the higher command expected to resume the offensive with the coming of spring.

THE ITALIAN FRONT.—Italy declared war against Austria-Hungary on May 23. In the previous months it had seemed barely possible that her national aspirations would be satisfied without recourse to arms.

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Austria having invaded Servia, Italy asked for compensation in accordance with her understanding of the treaty of alliance. Under German pressure Austria consented to discuss terms in March; but negotiations were complicated by the fact that she was unwilling to permit any transfer of territory until after the war. Her final offer contemplated the cession of the Italian part of Tyrol and the Isonzo region including Gorizia, administrative autonomy in Trieste and Istria with exemption from military service for Italians in that region, and the recognition of Italy's preponderant interests in Albania. These terms were not acceptable. On May 4 Italy denounced the treaty of alliance with Austria and resumed complete liberty of action. In the ensuing weeks popular demonstrations encouraged the government to take decisive action. Strangely enough Italy remained at peace with Germany although the German ambassador was recalled from Rome and German troops were reported in the Trentino; and war against Turkey was not declared until August 21.—Immediately upon the declaration of war Italian armies began a double offensive, moving against the Trentino and against the Austrian positions behind the Isonzo. A smaller force advanced from the Friuli district towards the upper Drave apparently with the object of closing the Puster Thal and thus severing communications between Vienna and the Trentino. In the eastern theatre, where the operations were intended to isolate and reduce Trieste, the Isonzo was crossed successfully, Montfalcone falling on June 9, Gradisca on June 11, and Plava on June 20. The progress of the invaders, faced now by strong prepared positions, became extremely difficult and slow. There were minor successes. On July 21 several lines of trenches and 2000 prisoners were taken on the Carso heights. But at the end of October Gorizia still resisted all assaults. In the Trentino campaign separate armies advanced simultaneously from the south, east, and west, through the Adige, Brenta, and Tonale valleys, respectively. Operations, being delayed by the difficult nature of the country, had not reached a decisive stage at the close of this RECORD. Towards the end of October, however, the Italian attack along the whole front acquired new vigor. In the Carso region 2000 prisoners and a large store of war materials were taken on October 23; and mountain positions to the west of Lake Garda were carried. At many points the Austrians were driven from second line defences which had been elaborately fortified during the summer. It was reported on October 26 that the Austrians had brought reinforcements from the Russian front in order to halt the Italian offensive.

OPERATIONS IN TURKEY AND THE BALKANS.—Late in April an army which included 60,000 British troops and 40,000 French reached the **Dardanelles**. Supported by heavy fire from the warships, the British established themselves at the extremity of the Gallipoli peninsula and on its western coast between Gaba Tepe and Ari Burnu. In this difficult operation 15,000 men were lost; and the French, who had landed at Kum Kale on the Asiatic shore, were compelled to abandon their position and

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combine with the British forces in the neighborhood of Sedd-el-Bahr. Four miles north of that point the allied advance was permanently halted by the Turkish lines at Achi Baba; and the Australasian contingent, which was to assault these lines from the rear, found it impossible to take the fortified hill at Sari Bair. To end this deadlock large reinforcements were landed in August, partly in Suvla Bay and partly at Karachali north of the Gulf of Saros and behind the Bulair lines. For a moment it seemed that the Turkish communications with Constantinople would be severed; the Australasians, with remarkable resolution, reached the crest of Sari Bair on August 11, but had to retreat because of the failure of operations on their left. The fighting on both sides was most determined. Up to October 9 the British had lost 96,899 men. But even at such cost no substantial advance seemed possible. Lord Milner, describing the position of the Allies as hopeless, urged the abandonment of the enterprise. At the beginning of November, however, though Mr. Asquith had admitted that the operations were a failure, there was nothing to indicate that the troops would be withdrawn.—On October 7, German and Austrian armies, reported to be 300,000 strong, began a new invasion of Servia. Apparently the object was to fix definitely the attitude of the **Balkan states** at a time when the Russian campaign still bore the mark of success and to open overland communication with Turkey, where the shortage of military supplies had become exceedingly serious. Military action had been preceded by a prolonged diplomatic struggle in the Balkans. The Allies, trying to win Rumania, found that her terms grew more exacting in the face of Russian reverses. They succeeded only in persuading her to place an embargo on the shipment of German munitions to Turkey. The Central Powers, for their part, promised territorial concessions in Bukovina if she would maintain a benevolent neutrality. Bulgaria was the real storm-center. There the Allies were placed in a difficult position not only because operations in the east went steadily in favor of the Central Powers, but also because Bulgaria, wishing to secure all that she had lost in the second Balkan war, could be satisfied only at the expense of Servia, Greece and Rumania. On August 9 the prime minister, Radoslavoff, declared that Bulgaria would enter the war if she received Servian Macedonia, Greek Macedonia east of the Struma, and the Rumanian acquisitions in Silistria; the guarantees, however, must be "real and absolute." Earnestly, but in vain, diplomats labored to harmonize the conflicting interests of the various states. The trend of Radoslavoff's policy was revealed by the Turkish agreement to cede territory lying between the Maritza river and the frontier and including the Dedeagatch railroad. The Central Powers, gathering a large army on the Danube, could offer the alternative of war or profitable alliance. On September 19 Bulgaria mobilized. Two weeks later, after German and Austrian officers had arrived at Sofia, Russia delivered an ultimatum requiring Bulgaria to give immediate proof of her intention to break with the Central Powers. The

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reply being unsatisfactory, diplomatic relations were broken off, though war was not formally declared by Great Britain, France, Russia, and Italy until the middle of the month. In this crisis the Allies counted on the active support of Greece. Venezelos, with the chamber and country behind him, held that the treaty of defensive alliance with Servia would apply in case of a Bulgarian attack on Servia; and, arranging with the Allies for substantial military assistance, he mobilized the Greek army. But on October 7 came the fall of Venezelos, and the change of policy under Zaimis (see *infra*, p. 733). Although the British government offered the immediate cession of Cyprus and other territorial inducements, Zaimis could not be induced to enter the war. The Teuton armies began their invasion on October 7. Though encountering stubborn resistance, they crossed the Danube and Save, storming Belgrade and Semendria. When the Servian forces had been drawn northward to meet this move, the Bulgarians advanced rapidly over the eastern frontier. They cut the Salonica railroad at Vrania on October 18, took Uskub on the 23d, crossed the Timok River at about the same time, and effected a junction with the Germans in northeast Servia on the 26th. Nish fell on November 6. The Servians had inflicted enormous losses on the enemy; their armies had retreated intact from each position; but, assailed on two fronts at once, and by greatly superior forces, they could not long survive without powerful reinforcements. These the Allies definitely promised. Within three weeks, according to reports, 150,000 French troops and a much smaller British contingent, the vanguard of a larger army, had landed at Salonica under the merely formal protest of the Greek government. Part of this force joined with the Servians to the north, part drove the Bulgarians back upon Strumnitza and moved forward to attack the flank of their invading armies. At the end of October it was reported first that 500,000 Russians were preparing to invade Bulgaria through Rumania, and then that the invasion would proceed by way of the Black Sea ports.—In **Mesopotamia** the British campaign progressed rapidly, notwithstanding very serious difficulties which had to be surmounted. The army divided at Kurna, one column advancing along the Tigris and the other along the Euphrates. Amara was taken on June 3, Nasiryeh in July, the Turks losing 3200 men and large stores of ammunition at the latter point. At Amara, on September 27, the Turks attempted, by an encircling movement, to take the British forces in the rear; but they were themselves suddenly attacked and, losing 6650 men, were forced to retreat westward. On October 20 the British were reported to be within a few miles of Bagdad.—Turkish forces invaded the hinterland of Aden early in July. The British, though at first compelled to retire on Aden, took the offensive on July 21 and drove the Turks back to Lahej.

OPERATIONS IN AFRICA.—On May 12 General Botha and the British South-African forces occupied Windhuk, capital of German Southwest Africa. Steady progress continued during the next two months; and

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on July 9 Governor Seitz surrendered the whole colony together with the armed forces which still remained in the field. This campaign, in which 50,000 men were employed by the Union, had cost £16,000,000. The casualties were very light.—The conquest of German Kamerun proceeded slowly; neither there nor in German East Africa had decisive results been obtained at the end of October.

MARITIME AND AËRIAL WARFARE.—The undisturbed dominance of the British navy made it possible to transport great armies to France and Turkey, practically without loss, and to enforce restrictions upon neutral commerce (see *infra*, p. 710). Except for operations in the Baltic and the **submarine attacks** on British shipping, the German fleet remained quiescent. For a time the submarines did enormous damage. The British admiralty admitted the loss of 56 merchant vessels, with a tonnage of 187,000, between February 18 and May 18. Three capital ships of the navy (the "Goliath," "Triumph," and "Majestic") were torpedoed in the Dardanelles, one of them by a submarine which was said to have journeyed from Wilhelmshaven in 42 days. In August the auxiliary cruiser "India" was sunk off the Norwegian coast and the transport "Royal Edward" in the Ægean. The sinking of transatlantic liners, such as the "Lusitania" and "Arabic," brought Germany into serious controversy with the United States (see *infra*, p. 707); but the relaxation of submarine warfare in September may have been due less to the indignation of America than to the success of the British in combating it. According to a trustworthy report, at the beginning of September, 42 submarines had been sunk or captured by the British alone; and Lord Selborne announced on August 26 "the navy has the submarine menace well in hand." Meanwhile British submarines had become active in the sea of Marmora and the Baltic. Water communications between Constantinople and the Gallipoli peninsula became unsafe; up to October 26 the Turks had lost two battleships, five gun-boats, one torpedo-boat, eight transports and 197 supply boats. The German merchant marine was momentarily driven from the Baltic; twenty ships, with a tonnage of 38,000, were sunk between October 11 and 23. Naval losses were also considerable: the "Pommern" on July 2, the "Moltke" on August 18, the "Prince Adelbert" on October 23, and a destroyer and torpedo boat on October 15.—Several minor engagements between the Russians and the Germans occurred in the Baltic, attacks upon Windau and Riga, both being repulsed. Evidently the fear of British submarines restrained the Germans from using their capital ships.—Early in July the Italian navy blockaded the coasts of Austria-Hungary. Two cruisers engaged in the enterprise, the "Amalfi" and the "Giuseppe Garibaldi," were sunk by submarines.—**Aeroplanes** continued to do effective service in connection with military movements and were also employed in the west, both by the Germans and the Allies, in bombarding interior points. In such attacks as many as thirty or forty aeroplanes were combined in a single fleet. A British aviator, on August 26, destroyed a German

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submarine with bombs.—During the summer **Zeppelins** began to make systematic descents upon the eastern coast of England. In nine raids which occurred before the end of August, 89 persons were killed and 227 injured. In September, when the raids became more frequent and concentrated on London, 75 persons were killed and 251 injured. On October 13, in the only raid of the month, 55 persons were killed and 114 injured. The killing of so many non-combatants, largely women and children, greatly stimulated recruiting in England.

PEACE SUGGESTIONS.—With the summer the prospects of peace came under occasional discussion. On July 28, indeed, the Pope addressed to the heads of the belligerent states an appeal in which he expressed the firm intention of consecrating all his influence to the task of reconciliation. He suggested an exchange of views "to bring to an end the mighty conflict, as has happened in similar circumstances." The temper and intention of the Allies were shown in the unfavorable reception of this proposal. The view unmistakably prevailed that, under existing circumstances, before the superior resources of the Allies had been brought effectively into play, peace propaganda must work to the advantage of Germany. An imperial rescript had already announced the firm determination of Russia to prosecute the war till the enemy should be overthrown; and several months later, when peace rumors had grown more frequent, Asquith in England and Briand in France proclaimed that the war would be carried to a victorious issue. On October 29 Japan became party to the declaration of Great Britain, France and Russia that no member of the alliance would conclude a separate peace. It was perhaps significant of the military and economic situation of the Central Powers that they were represented in October as anxious to promote the discussion of peace. The German Chancellor, according to report, suggested as terms the cession of Belgium to the Meuse line, the cession of Courland, and an indemnity of thirty billion marks. At the end of October Prince von Bülow visited Switzerland and, in spite of his denials, was said to be discussing with Mgr. Marchetti, the papal delegate, the possible intervention of the Vatican. Interest was also manifested in the visit of the German colonial secretary to Holland.

THE UNITED STATES AND THE EUROPEAN WAR.—The activity of German submarines and their disregard of neutral maritime rights (see last RECORD, p. 352) continued through the summer, bringing the United States and **Germany** to the verge of war. There were two aspects to the controversy: the attacks upon American vessels and the loss of American lives through the sinking of British transatlantic liners. On May 7, more than 100 American citizens were drowned when a submarine sank the "Lusitania" off the south coast of Ireland. The protest of the United States was prompt and emphatic. On May 14 a note was presented at Berlin reciting the series of outrages which had culminated in the Lusitania case and affecting to believe that acts so contrary to the spirit and practice

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of modern warfare could not have official countenance or sanction. The lives of non-combatants could not lawfully be jeopardized by the capture or destruction of an unarmed merchantman. Germany must disavow these breaches of law, make reparation, and take "immediate steps" to prevent similar occurrences in the future. The United States would not "omit any word or act necessary to the performance of its sacred duties of maintaining the rights of the United States and of safeguarding their free exercise and enjoyment." The German reply, dated May 28, was evasive. In cases of attack upon innocent neutral ships apology and reparation would be offered; but the "Lusitania" was an auxiliary cruiser, armed with concealed cannon and carrying British troops and munitions of war. The United States, having ascertained that these statements were untrue, "very earnestly and very solemnly" renewed its former representations on June 9 and asked for definite assurances. A month passed; during that interval the British steamer "Armenian" was sunk off the Cornwall coast, with the loss of some 20 American citizens, and an attempt was made to sink the "Orduna," which carried a number of American passengers. Then came the German reply. It promised that American vessels, if suitably marked, would not be molested and offered to facilitate transatlantic travel by permitting designated neutral vessels, and even a limited number of English vessels not carrying munitions, to use the American flag. Submarine warfare on passenger ships was excused on the ground that England had been the first to declare a maritime war zone and to violate the rights of neutrals. Germany would be glad to have the United States suggest to Great Britain a modification of existing practice. This reply failed to touch the real differences between the two countries; it was described in the American note of July 21 as "very unsatisfactory." President Wilson, insisting upon the scrupulous observance of neutral rights, gave warning that "repetition . . . of acts in contravention of those rights must be regarded by the government of the United States, when they affect American citizens, as deliberately unfriendly." Nine days later the British ship "Iberian" was sunk, three Americans being killed and three wounded by shellfire which preceded the discharge of the torpedo. On August 19 the "Arabic," sailing westward and therefore carrying no munitions, was torpedoed off the coast of Ireland. Two Americans were among those lost. In the United States intense indignation was manifested; this seemed to be the final German answer to the prolonged American protest. Affected no doubt by the outburst of hostile sentiment, Germany at once proposed to suspend submarine warfare if the United States would endeavor to secure a modification of the British blockade. On September 1 assurances were at last given that passenger vessels would not be sunk without warning and that provision would be made for the safety of non-combatants. Regarding the "Arabic," however, it appeared that the submarine commander had reason "to conclude from attendant circumstances" that his own vessel was in danger of being

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rammed; but even were he mistaken there was no obligation to pay an indemnity. Further correspondence followed; and on October 5 the German government expressed regret, disavowed the act, and agreed to pay an indemnity for the American lives lost.—Meanwhile American vessels had been menaced by submarines. On May 26 the "Nebraskan" had been struck by a torpedo, without warning of any kind, while off the coast of Ireland. No lives were lost. On July 25 the "Leelanaw," carrying contraband, was sunk off the Orkney islands, apparently in violation of the treaty of 1828 with Prussia. The meaning of this treaty was already under discussion in the case of the "William P. Frye" (see last RECORD, p. 352); and on August 10 both parties decided to submit it to arbitration. On September 19 Germany gave assurance that, pending the settlement, no American vessel carrying conditional contraband would be sunk under any circumstances. The United States demanded on October 12 that in case a vessel carrying contraband should be sunk the safety of the crew must be adequately provided for.—Aside from the submarine depredations, American opinion was inflamed against the Central Powers because of the intrigues set on foot by their agents in the United States and because of the **propaganda** maintained among German-Americans. In August, letters stolen from a German agent and published in a New York newspaper indicated that large sums of money were being spent to influence the press and to prevent supplies of munitions from reaching the Allies. Strikes were fomented in munition factories (see *infra*, p. 719). The Austro-Hungarian ambassador, Constantin Dumba, proposed to his foreign office plans which would "disorganize and hold up for months, if not entirely prevent, the manufacture of munitions in Bethlehem and the Middle West"; and on September 9 the United States government, becoming cognizant of this proposal, demanded his recall. Three months earlier an unofficial representative of Germany, Dr. Bernhard Dernburg, giving offence by his public utterances, was compelled to leave the country. A formal protest against supplying the Allies with munitions of war was received from Austria-Hungary on June 29. Reply was made on August 5 that the Central Powers had been in the habit of furnishing belligerents with war supplies and that peaceful nations would be at the mercy of aggressive and prepared enemies if they could not procure equipment from neutral sources. A second note, which was presented by Austria-Hungary on September 24, questioned the validity of the American position and restated the arguments of the first note.—The frequency with which explosions and fires occurred in plants manufacturing munitions and on vessels transporting them abroad suggested the existence of a carefully planned **conspiracy**. On July 3 J. P. Morgan, the financier, who was acting as agent of the British government in the matter of war contracts, was attacked and wounded by a German-American, Erich Muenter *alias* Frank Holt. Muenter committed suicide in prison three days later. It transpired that he had obtained quantities of dynamite and had been responsible for

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an explosion on the liner "Minnehaha," but nothing was discovered to connect him in any way with German agents in the United States. A more formidable plot came to light through the arrest, on October 24, of two Germans who gave their names as Robert Fay and Walter Scholz, the former professing to be a lieutenant in the German army. They had perfected a mechanism for the destruction of vessels occupied in the carriage of munitions. Large sums of money had passed through their hands. The subsequent arrest of several German-Americans of good standing in New York indicated that the government was in possession of important information.—The **British orders-in-council** restricting neutral trade with Germany and with adjacent neutral countries (see last RECORD, p. 347) had drawn protests from the United States two weeks later. The application of the blockade developed three substantial points of complaint: (1) manufactured goods which had been ordered in Germany before March 1 but not paid for till a later time were not permitted to reach the United States; (2) large cotton shipments to neutral countries and Germany were detained in English ports to await the action of prize courts; and (3) shipments of meat products consigned to neutrals and valued at $14,000,000 were likewise detained. In May strong representations were made urging the early settlement of nearly 400 cases in which cotton cargoes had been detained; and on July 14 the American ambassador insisted that the rights of American citizens in the prosecution of neutral trade be respected. Five different notes from the British government were made public simultaneously on August 3. While expressing a readiness to "make reasonable concessions to American interests," they insisted that British policy was based upon recognized principles of international law. It was maintained that when the established underlying principles of blockade and contraband are not violated new measures of enforcement may be applied, "if the circumstances render such an application of the principles of blockade the only means of rendering it effective." American practice during the Civil War was cited as justifying the British position. Moreover it was incumbent on the Allies "to take every step in their power to overcome their common enemy in view of the shocking violations of the recognized rules and principles of civilized warfare." On August 21 the British government declared cotton absolute contraband. The prize court, on September 16, confiscated several cargoes of American meat products which had long been detained in British ports. On October 11 a memorandum was submitted to the American ambassador explaining the evidence on which the detention and confiscation of the cargoes was based. On October 27 there was despatched to London by messenger a note in which the United States government set forth in detail its objections to the restrictions imposed upon neutral commerce.—The case of the "**Dacia**" (see last RECORD, p. 351) was decided on August 4: the vessel was condemned by the prize court. The cargo of cotton, not being contraband at the time of the voyage, was purchased by the French government. In

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September an Anglo-French financial mission arrived in New York to negotiate a loan. After protracted conferences with American bankers, the amount of the loan was fixed at $500,000,000, the proceeds to be employed exclusively in America. The systematic efforts of German-Americans to obstruct the loan proved unavailing.

II. INTERNATIONAL RELATIONS

AMERICAN RELATIONS.—For the relations of the United States with the belligerent European powers see *supra*, p. 707.—At the beginning of June President Wilson foreshadowed a more vigorous policy in dealing with the internal affairs of **Mexico.** In a public statement he urged the party leaders to compose their differences and act promptly for the relief of the country; failing such action the United States would employ means "to help Mexico save herself and serve her people." Villa, severely defeated in the neighborhood of Leon, was visibly impressed by this declaration. While denying the right of the United States to intervene, he made overtures to the Constitutionalists with the idea of arranging a conference. Carranza, however, felt that his cause was within measurable distance of final success and merely exhorted his opponents to submit in expectation of a general amnesty. In spite of this obduracy the United States took no decisive action for two months. Then a new policy was developed. On August 5 the diplomatic agents of six Latin-American republics (Argentina, Brazil, Chile, Bolivia, Uruguay and Guatemala) discussed with the American secretary of state the means of establishing peace in Mexico. An appeal was addressed to all Mexicans possessing "authority and power"; and these men, consulting together, were to erect a provisional government and provide for the holding of a general election. On August 19 Villa accepted the proposal. Carranza, having driven the Villistas from Saltillo and Torreon, rejected it three weeks later. Acquiescence, he said, "would impair profoundly the independence of the republic and establish a precedent for foreign interference." The mediating diplomatists again deliberated. As a result Venustiano Carranza was recognized, on October 19, as chief executive of the *de facto* government of Mexico.—Disturbances in **Haiti**, which culminated in the murder of President Guillaume, led to the landing of American marines at Port-au-Prince on July 28. No effective resistance was offered by the natives, only two of Rear Admiral Caperton's men being killed. With the arrival of reinforcements the area of occupation was gradually extended to cover the whole republic; at all ports the collection of customs duties was supervised so as to prevent any improper diversion of revenues. The election of President Dartiguenave, on August 12, brought no immediate change in the situation; the new government was unable to maintain order without the support of the American forces. The United States, therefore, withheld recognition for the present and, in order to prevent a recurrence of the disorders which had been so characteristic of Haitian politics, sought to impose by treaty what the secretary of

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state described as an American protectorate. The treaty, which was to run for ten years, provided for a native constabulary under American officers, a receivership of customs under American control and a general supervision of finances. It was signed by President Dartiguenave on September 16, and recognition of his government followed immediately.—Late in September the republic of **Panama** proposed to the United States that a new treaty should supersede the original instrument of 1903. Under the suggested modifications the United States would transfer to Panama the lands of the Panama railroad situated in Colon and Panama and also the waterworks of those two cities ; all differences between the two countries would be submitted to a board of arbitration ; intervention in elections could take place only upon the request of the president of Panama.—On May 25 representatives of Argentina, Brazil and Chile concluded a treaty which was designed to improve existing relationships between the three countries.—A Pan-American financial conference met at Washington on May 24, having as its purpose the improvement of business relations. Committees were appointed to consider the arbitration of trade disputes and to promote uniform legislation on certain subjects. The conference declared that better transportation facilities were a vital necessity.

ASIATIC RELATIONS.—Negotiations between **China** and **Japan** reached a critical stage on May 2 when China, refusing to accept Group V of the proposed agreement (see last RECORD, p. 350), stated that her concessions would be carried no further. On May 7 Japan presented an ultimatum which cleared the way for an understanding. While insisting on an immediate and definite reply to other demands, she reserved for friendly discussion at a later time the contentious proposals in Group V. Finally, on May 25, an agreement was signed. China gave Japan a free hand to arrange with Germany the disposition of German rights and interests in Shantung and promised never to lease or alienate to a foreign power the territory of that province or any island along its coast. As for South Manchuria, she extended the lease of Port Arthur and of the Manchurian railroads to a period of 99 years ; permitted Japanese to reside there, engage in business, and lease land for business purposes ; recognized the superior claim of Japanese subjects to appointment as political, financial and military advisers and to participation in loans having taxes as security. Very much the same privileges were conceded in Eastern Inner Mongolia. With respect to the coast of Fukien, China agreed neither to permit a foreign power to establish a station there nor to build such a station herself with foreign capital. Japan, on her part, promised that, if left a free hand after the war, she would restore Kiaochau to China, but under certain conditions : these included the opening of the place as a commercial port and the establishment of a Japanese community.—On October 29 the diplomatic representatives of Great Britain, Russia and Japan, supported unofficially by the French government, requested that the Chinese government take no further action towards reëstablishing the monarchy until the conclusion

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of the European war. They pointed out that otherwise disorders would result in those parts of the country where republicans were particularly strong and that foreign interests would inevitably suffer. China replied that the monarchical movement was a matter of domestic concern and that, being based on popular sentiment, it could not be delayed or expedited by the government. Moreover, the provincial officials had intimated their ability to maintain order. Japan, not being satisfied with this reply, asked for further explanations on November 4.

III. THE UNITED STATES

THE ADMINISTRATION.—In view of the diplomatic complications with Germany and the possibility of actual rupture (see *supra*, p. 707) a body of public opinion favorable to more adequate **naval** and **military establishments** began unmistakably to form. Its influence upon the administration was seen in the appointment of a naval advisory board of inventions which held its first meeting on October 6 with Thomas Edison as chairman. The 22 members of the board were chosen by eleven scientific societies. Two weeks later the secretary of the navy announced that he would recommend to Congress an extensive building program. He proposed that a sum of $502,000,000 should be expended during the next five years for new vessels, aviation and reserve munitions. The new vessels would include 10 battleships, 6 battle cruisers, 10 scout cruisers, 50 destroyers and 100 submarines. The estimates for 1917 aggregate $216,000,000, an increase of $68,000,000. Simultaneously the secretary of war outlined a plan for strengthening the military forces; he contemplated a regular army of 140,000, a national guard of the same numbers, and a "continental army" of 400,000. The latter would be a citizen army enlisted for six years and trained by means of an annual camp drill during the first three years. This plan entailed an increase of $72,000,000 in the estimates.—On June 8 William Jennings **Bryan** resigned as secretary of state. In his letter to the President he said: "You have prepared for transmission to the German government a note in which I cannot join without violating what I deem to be my obligations to my country." The resignation, though promptly accepted, apparently did not affect the cordial relations between Mr. Bryan and his former chief. Prior to this incident, however, the President had assumed direct personal control of important diplomatic correspondence. On June 23 Robert Lansing was appointed secretary of state; he was succeeded in the office of counsellor for the state department by Frank L. Polk of New York.—In the latter part of September earth slides, occurring in the Gaillard Cut, made it necessary to close the **Panama canal**. By October 6 nearly 100 vessels were awaiting passage. On that day Major-General Goethals arrived at Panama, announcing that he had withdrawn his resignation as governor of the canal zone and would remain in office until the danger of future slides had been eliminated. On May 25 two employees of a steel company were convicted of conspiring

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to furnish inferior material for use in the locks and gates of the canal. A few days later Jacob L. Salas, a tobacco dealer of Colon, was found guilty of conspiring with John Burke, former commissary of the Panama railroad, to defraud the government. An indictment charging Burke and Robert Wilcox with bribery in connection with purchases of oil was dismissed. Other indictments against Burke remain to be tried.—**Immigration** for the year ending June 30 was the lowest since 1899, only 326,700 being admitted as against 1,218,480 during the previous year.—For the year 1915 **exports** exceeded imports by more than a billion dollars, and this despite the fact that exports to Germany showed a decline of nearly $300,000,000. Customs duties collected during the year decreased by $83,000,000.—On July 4 the **postmaster general** announced that the deficit in his department for the first nine months of the fiscal year had exceeded $8,000,000. On July 17 seven New England railroads filed petitions in the court of claims for the purpose of obtaining a sum of $11,000,000 which represented their losses in the carriage of mails during the past six years. The railroads contended that no adequate compensation was paid in connection with the parcel post, and that under the system of weighing the mails every four years the annual increase in volume was not paid for at all.—Speaking before the Pan-American Financial Conference on May 24, the President intimated that his project for government-owned **steamship lines** (see last RECORD, p. 355) would be revived. "If private capital cannot soon enter upon the adventure of establishing the physical means of communication," he said, "the government must undertake to do so." Secretary McAdoo, speaking at Greensboro, North Carolina, on August 4, maintained that government transportation would give lower rates and yield the cotton planter increased profits.—Charges having been preferred against James M. Sullivan, minister to San Domingo, and investigated by a special commissioner, the President accepted his resignation on July 23. W. W. Russell, who had been displaced by Sullivan, was thereupon reappointed to the post.

THE FEDERAL JUDICIARY—Among the more important cases decided by the Supreme Court were the following. The statute of Indiana requiring owners of coal mines to erect and maintain wash-houses for their employees is not unconstitutional under the **fourteenth amendment** as depriving the owners of their property without due process of law or denying them the equal protection of the laws (Booth *v.* Indiana, 237 U. S. 391). The comparative gravity of criminal offences is a matter for the state itself to determine, and the fact that some offences are punished less severely than others does not amount to a denial of equal protection of the laws (Collins *v.* Johnston, 237 U. S. 502). The exercise by a state of its power to fix street railway rates, notwithstanding municipal ordinances, does not deprive the railway of its property without due process of law (Milwaukee Electric Railway *v.* Railroad Commission of Wisconsin, 35 S. C. R. 820). The laws of Kansas under which an attorney's fee is allowed the shipper who successfully sues a railway for failure to furnish cars, while no such

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allowance is made in successful action by the railway in suit against a shipper for failure to use the cars, deny the equal protection of the laws (Atchison, Topeka and Santa Fe Railroad *v.* Vosburg, 35 S. C. R. 675). A state statute prohibiting the existence of Greek letter fraternities in state institutions does not deny the equal protection of the laws because construed not to apply to students already entered (Waugh *v.* Trustees of the University of Mississippi, 35 S. C. R. 720). Equal protection of the laws is not denied by Missouri statutes which require openings in rights of way to take care of surface water; and railroads may be compelled to make such openings in the road-beds without impairing the obligation of the railroads' charters (Chicago and Alton Railroad *v.* Traubarger, 35 S. C. R. 678). The contention that a state statute forbidding the ownership of real estate by non-resident aliens is repugnant to the fourteenth amendment simply because it does forbid such ownership is frivolous (Toop *v.* Ulysses Land Company, 237 U. S. 580). The reserved right of a state to amend corporate charters cannot be so exercised as to take the property of the corporation without due process of law (Chicago, M. and St. P. Railroad *v.* Wisconsin, 35 S. C. R. 869).—State election officials who conspire to deprive legal citizens of their right to vote under the **fifteenth amendment** are indictable under the penal code (Guinn *v.* U. S., 35 S. C. R. 926). The right to vote secured by the fifteenth amendment against denial on account of race, color or previous condition of servitude extends to municipal corporations (Myers *v.* Anderson, 35 S. C. R. 932). A conspiracy of state election officers to omit certain precincts from the returns at the election of congressmen is indictable under the criminal code (U. S. *v.* Mosley, 35 S. C. R. 904).—A state statute which is a burden on interstate **commerce** is not saved by calling it an exercise of the police power; and the law of South Carolina imposing on carriers a penalty for failure to settle or adjust claims within forty days is an unconstitutional burden on interstate commerce and also in conflict with the Carmack amendment of 1906 (Charleston and W. C. Railroad *v.* Varnville Furniture Company, 237 U. S. 597).—A person breaking into a postoffice and committing a larceny therein may be convicted under separate counts of the same indictment and sentenced separately under each count without being placed in **double jeopardy** although the several things charged were done at the same time and as part of the same transaction (Morgan *v.* Devine, 237 U. S. 632).—A person extradited from Great Britain may be tried and convicted for a crime committed in the state after extradition; and so held as to perjury committed at the trial of the crime for which the party was extradited (Collins *v.* Johnston, 237 U. S. 502).—For other decisions see *infra*, **State Affairs** and the **Trust Problem and the Railroads**.

THE ELECTIONS—The most interesting feature of the autumn elections was the submission of woman-suffrage amendments to the voters of four eastern states. They were rejected in all cases. The majorities against suffrage were: Massachusetts, 127,000; New Jersey, 56,273

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(complete returns); New York, 200,000; Pennsylvania, 54,000.—Still more decisive was the rejection of the proposed new constitution in New York (see *infra*, p. 717). It was rejected in every county and by a majority of more than 500,000 through the state. In Maryland amendments were carried establishing the referendum, and home rule for counties and for the city of Baltimore. In Ohio prohibition was rejected by a majority of 40,000, as against a majority of 80,000 in 1914. At the close of the RECORD the returns did not show whether the workmen's compensation amendment had been carried or defeated in Pennsylvania.—Governors were elected in four states: Kentucky, A. O. Stanley (Democrat) by 7800; Maryland, E. C. Harrington (Democrat) by 3500; Massachusetts, Samuel W. McCall (Republican) by 6600; Mississippi, Theodore G. Bilbo (Democrat). As the Progressive candidate polled only 7000 votes in Massachusetts, that party ceases to have legal standing.—In New York the Republicans maintained, with little change, their control of the assembly; in New Jersey their majority was increased in both houses; in Maryland they were able to reduce the Democratic majority somewhat in both branches of the general assembly.—The attempt to recall Mayor James M. Curley of Boston failed. His opponents had a majority of 12,500, but not the required majority of the registered vote. Philadelphia fell under the control of the Republican machine, Thomas B. Smith being elected mayor. Among the other mayors chosen were: H. L. Davis (Republican), Cleveland; Charles M. Milroy (Progressive), Toledo; George R. Lunn (Socialist), Schenectady.—In New York Tammany not only succeeded in electing the sheriff and district attorney of the county, but wrested from the Fusionists control of the board of aldermen.

STATE AFFAIRS—The eighth annual meeting of the Conference of **Governors** opened at Boston on August 24. A resolution was adopted, without dissent, expressing complete confidence in President Wilson's leadership during a time of "international concern." National defence was among the subjects discussed, and the speakers agreed that both military and naval forces required strengthening.—On July 1 prohibition became effective throughout the state of **Alabama**. A decision of the supreme court, on May 13, sustained the Denison law under which no liquor advertisements may be published and no newspapers containing them sold.—On November 1 the United States Supreme Court declared the anti-alien-labor law of **Arizona** unconstitutional under the fourteenth amendment; the question of treaty rights was not considered.—In August civil servants of **Kansas** were forbidden to use liquor under pain of dismissal.—On August 7, A. O. Stanley was nominated as Democratic candidate for governor of **Kentucky** by a large majority; the significance of his victory lay in the fact that both his opponents were pledged to state-wide prohibition. The United States Supreme Court, on June 14, decided a case in which an express company had been prosecuted on the ground that it had taken liquor for personal use from Tennessee to "dry" territory in

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Kentucky. Accepting the opinion of the state court that the Webb-Kenyon act did not apply, the court set aside the conviction of the express company.—The **Missouri** legislature passed bills promoting the care of consumptives and applying preventive regulations in the lead and zinc districts where the disease is particularly prevalent.—The conviction of Bart Dunn, a **New York** contractor and former Democratic leader, for conspiring to defraud the state on highway work in Rockland county, was upheld by the court of appeals on July 13. In three test cases the court also upheld the constitutionality of the workmen's compensation law. The constitutional convention, which began its sessions in April (see last RECORD, p. 359), completed its labors in September, the draft of the new constitution being adopted by a vote of 118 to 33. Among the important features of the proposed instrument were: limited home rule for cities, a comprehensive readjustment of the administrative departments, reduction of the number of elective state officers to four (governor, lieutenant-governor, comptroller and attorney-general), and budget reforms providing for a large measure of executive control and substituting serial bonds for long-term securities. The convention voted down proposals which would have established a literacy test for voters, a two-year term for assemblymen, a four-year term for governor and senators, and an appointive judiciary.—In June, bills providing for state insurance and workmen's compensation were signed by the governor of **Pennsylvania**; he vetoed a bill which relieved railroads from the requirement of carrying full crews.—In **Rhode Island** a federal grand jury indicted prominent office-holders and politicians on the charge of systematic vote-buying in the elections of 1914. Fourteen persons were arrested in Coventry, seventeen in North Providence.—On September 14 state-wide prohibition was adopted in **South Carolina** by a large majority; the system of dispensaries will end on January 1.—On June 5 forty-two persons were indicted by a federal grand jury at Corpus Christi, **Texas**, on the charge of conspiring to corrupt the congressional election in November. Among the number were two judges, a prosecuting attorney, a chief of police and a sheriff.—The United States Supreme Court settled in May a controversy of more than fifty years' standing between **Virginia** and **West Virginia** over the apportionment of the public debt of the former as it stood before the Civil War. Under this decision Virginia receives $12,390,000, of which almost two-thirds is accrued interest.

MUNICIPAL AFFAIRS—Exposure of **official corruption** took place in a number of cities. In Terre Haute, where Mayor Roberts had been convicted of election frauds (see last RECORD, p. 360), his successor, James G. Gossom, was impeached by the city council on a number of serious charges. On June 22 a grand jury returned indictments against 128 Indianapolis officials, including Mayor Bell, Chief of Police Perrott and Thomas Taggart, Democratic national committeeman. All were charged with corruption in the elections of 1914. Bell was acquitted on October 13.—A complicated situation arose in Nashville as a result of the discovery that certain financial

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records had disappeared from the comptroller's office. Comptroller Burns, having been suspended by Mayor Howse and afterwards arrested on the charge of stealing the records, asserted that two other officials had stolen them in order to hide irregularities. The arrest of the city treasurer, the flight of his assistant, the resignation of two city commissioners and the suspension by the court of two others followed in rapid sequence. On July 27 the city was placed in the hands of a receiver. Proceedings in court revealed systematic and wide-spread robbery of the city by its own officials. A recall election held early in October resulted favorably to reform.—At the end of September ouster proceedings were set in motion against the mayor and police commissioner of Memphis. G. W. McLeish, mayor of Steubenville, Ohio, was ousted in June on the charge of collecting excessive fees in the mayor's court. The mayor and other officials were indicted for corruption in Saint Petersburg, Florida; San Leandro, California; and Wilmington, South Carolina.—Late in August the courts upheld an order of the public service commission requiring the United Traction Company of **Albany** to make sweeping improvements.—In July an agreement was reached in **Detroit** whereby the voters should settle the question of acquiring the street railroad at a price to be fixed by the courts.—The city commission of **Dayton** passed, in July, an ordinance requiring that gas should be furnished at 30 cents for a period of ten years.—On October 4 the voters of **Minneapolis** rejected prohibition by a substantial majority.—Charles Becker, formerly a police lieutenant in **New York**, was electrocuted on July 30 for the murder of Herman Rosenthal (see RECORD of June, 1914, p. 361). He made no confession.—Abraham Rueff of San Francisco, condemned to fourteen years' imprisonment as a result of the graft prosecutions, was paroled by the state board of prisons on August 21, after serving less than five years of his term.—The **city manager** plan of government was adopted by Alpena, Michigan; Santa Barbara, California, and Webster City, Iowa. Commission government was adopted by Springfield, Missouri, and Cape May, New Jersey; rejected by Bangor, Maine.

THE TRUST PROBLEM AND THE RAILROADS—On August 11 the **Interstate Commerce Commission** rendered an important decision as to freight rates in the Middle West. Forty-one railroads were concerned. They had petitioned for changes which would increase their total freight revenues by about $7,600,000, but the Commission, after a prolonged hearing, allowed only $1,600,000. Commissioners Daniels and Harlan favored larger concessions to the railroads.—On August 12, reductions of 10 to 80 cents a ton were ordered in the freight rates on anthracite coal mined in Pennsylvania. It was pointed out by the Commission that, although the railroads will suffer an aggregate loss of $8,000,000 annually, this will be offset somewhat by the increased profits of coal companies which the railroads control. An increase of 25 cents a ton was allowed on anthracite carried from the Pennsylvania fields to Chicago and other west-

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ern points.—On July 22 the Commission granted increases in express rates (except north of the Ohio and east of the Mississippi) which will increase revenues by 3.86 per cent or roughly $5,000,000. It was shown that while the net income of the four leading companies in 1913 had been $1,250,000, there was a deficit in 1915 of $1,130,000.—In October the Commission conducted hearings relative to the physical valuation of railroads, the purpose being to determine the fundamental principles which should be applied in the undertaking.—The United States Supreme Court, on June 21, held that a contract between the Delaware, Lackawanna and Western Railroad and the coal company of the same name, under which the former's coal was marketed by the latter, violated both the Sherman Act and the commodities clause of the Hepburn Act. It appeared that the railroad dominated the coal company by means of common stock ownership and interlocking directorates.—On June 14 the Supreme Court refused to review the decision of the circuit court of appeals in the case of the National Cash Register Company (see last RECORD, p. 363), the department of justice thus failing to secure convictions under the criminal provisions of the Sherman Act. The department experienced a further disappointment when the court, on June 21, ordered that the Harvester Trust case should be reargued in the autumn.—In New Jersey the United States circuit court, on June 3, denied the plea of the government for the dissolution of the United States Steel Corporation. The court found that the corporation, in acquiring its domestic and foreign trade, had violated no provision of the law. The purchase of the Tennessee Coal and Iron Company during the financial panic of 1907 and of other companies at an earlier time was made in fair business course and was "the honest exertion of one's right to contract for one's benefit unaccompanied by a wrongful motive to injure others."—On August 24 the United States district court at Buffalo declared the Eastman Kodak Company an illegal corporation in restraint of trade and ordered it dissolved.

LABOR AND CAPITAL—The enormous orders for **munitions of war** which the Allies placed in the United States, were indirectly the cause of wide-spread labor disturbances. In the first place German and Austrian influences were apparently directed towards fomenting strikes which would delay the manufacture and shipment of supplies. Samuel Gompers, president of the American Federation of Labor, declared on August 17 that foreign agents had attempted, by means of bribery, to procure a strike among the longshoremen of New York harbor. According to an official of the Remington Arms Company, the erection of its new plant at Bridgeport had been interrupted by the payment of considerable sums of money to labor leaders. That such statements were not without foundation was suggested by the circumstances which led to the recall of Ambassador Dumba (see *supra*, p. 709). But aside from foreign interference, the workers felt that some share of the unusual war profits should fall to them and that the manufacturers, having to fill their contracts under rigorous

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terms, would do much to avert labor complications. The first blow fell at Bridgeport, Connecticut, where some 30,000 men were employed in making munitions. On July 19, the day set for a strike of machinists, the Remington Arms Company granted an eight-hour day and a substantial increase of wages. Other companies granted either a wage increase or shorter hours. These results had been achieved without more than 900 men striking. Impressed by the success of the machinists, however, other employees demanded the eight-hour day. For six weeks strikes were general in Bridgeport. Practically all the men were unionized. Eventually employers granted either a forty-eight-hour or fifty-hour week, without loss of wages, in place of the fifty-five-hour week prevailing before. Meanwhile a conference of labor leaders had determined to extend the campaign for the eight-hour day to munition plants throughout the East and eventually to other industries. Pursuant upon this resolution, therefore, numerous strikes were set in motion during August and the first half of September; and either because of such pressure or in fear of its application, manufacturers having war contracts generally conceded the eight-hour day, sometimes with an increased wage. The movement soon spread to the Middle West, affecting Cleveland, Toledo, Youngstown and Chicago. It continued to exert influence in the East through October. On the 4th 13,000 men left work at the Schenectady plant of the General Electric Company, and 3000 employed by the International Silver Company at Meriden, Connecticut. A strike of 15,000 men at East Pittsburgh was averted by the granting of a fifty-two-hour week with a six-per-cent increase of wages. The Otis Elevator Company and the Victor Talking Machine Company voluntarily conceded the eight-hour day.—Dissatisfaction among workers in the **clothing industry** of New York City became acute during the summer. The manufacturers of ladies' clothing, having denounced the existing agreement with the unions, found the latter unwilling to accept proposed changes. Early in July a strike involving 60,000 workers seemed imminent. But both sides eventually consented to submit their claims to the decision of a conciliation board appointed by the mayor. The new agreement will run for four years unless terminated by either party at the end of two years; and during that time no strike may take place. In the men's clothing trade 21,000 of the 80,000 workers had already gone on strike before the manufacturers, in the middle of July, felt compelled to make concessions. Wages were increased about 12 per cent.—A strike of Chicago garment workers began on September 27. A month later, rioting resulted in the death of one man and the wounding of several others. —On July 20 employees of the **Standard Oil Company** at Bayonne, New Jersey, struck for higher wages and for shorter hours. Joined by strikers from two other oil plants, they engaged in rioting for two days. Although five persons were killed and many injured, Governor Fielder refused to furnish military protection when his intervention was requested by the mayor and the chamber of commerce. The personal authority of Sheriff

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Kinkead quieted the strikers, however, especially after he had arrested a considerable number of armed guards employed by the companies. The sheriff was able, on July 27, to announce that he had secured concessions for the men, and on his advice they returned to work. The Standard Oil Company later agreed to an eight-hour day and a ten-per-cent increase of wages.—Demanding higher wages and improved working conditions, 14,000 **motormen** and conductors employed on surface and elevated lines in Chicago left work on June 14. Although strike-breakers were brought to the city, no general attempt was made to operate the cars. Two days later Mayor Thompson persuaded both sides to accept arbitration. In the middle of the next month a similar strike occurred at Providence; at the end of three days the mayor's proposal of arbitration was accepted.—Early in September 5,000 copper **miners** in the Clifton-Morenci district of Arizona left work when the operators refused to recognize the union and grant higher wages. On October 3 Governor Hunt, who had offered to act as mediator, found it necessary to send militia to Clifton.—The Butte Miners' Union formally withdrew from the Western Federation of Miners on June 16, intimating that, over a period of twenty years, it had contributed $1,000,000 to the federation and received no corresponding benefits. Irregularity in the disposal of strike funds was charged. This cleavage had been foreshadowed by labor disturbances (see last RECORD, p. 361).—On July 26 suit was filed in the United States district court at Hartford to foreclose 140 judgment liens on individual pieces of property owned by defendants in the **Danbury Hatters'** case (see last RECORD, p. 361). In the same month a convention of the United Hatters of North America resolved that, while the union was under no obligation in the matter, money would be raised, by an assessment of one per cent on the weekly salaries of members, for the relief of the defendants whose property was to be foreclosed.—On May 30, nine men who had acted as deputies of the sheriff during the strike at Roosevelt, New Jersey (see last RECORD, p. 361), were found guilty of manslaughter. Seven members of the cloak and suitmakers' union were on trial in New York charged with the murder of a strike-breaker in 1910. On October 8 all were acquitted.—A strike of 5000 raincoat-makers occurred in New York City early in September. The employers eventually granted increased wages, a forty-eight-hour week, double pay for overtime and an impartial review of discharges.—The federal commission on **industrial relations** expired by limitation on August 23, having spent $500,000 in the two years of its existence. The members did not agree in their findings. Chairman Walsh and the three representatives of labor, in a lengthy report, ascribed industrial unrest to the unjust distribution of wealth and income, unemployment, the miscarriage of justice in the courts and the denial of the right and opportunity to form effective organizations. One of their numerous recommendations attracted universal attention. They advocated an inheritance tax so graded that, while making provision for the maintenance of dependents and the education of minors, it would leave no large

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accumulations of wealth in the hands of those who had no share in its production. Another report, drawn by Professor Commons and Mrs. J. B. Harriman, received the support of the three representatives of employers, with certain exceptions. It took strong ground against further attempts at labor legislation until ways could be found to make existing laws enforceable; laid emphasis upon the practical means of making legislation a real remedy; and maintained that improvement in conditions could come only from coöperation of voluntary organizations, such as labor unions and employers' associations, with the government.

THE RACE PROBLEM AND LYNCHING.—The United States Supreme Court, on June 21, declared unconstitutional the "grandfather clause" in the Oklahoma constitution. This clause imposed a general literacy test, but exempted from its application those who were entitled to **vote** prior to 1866, those who were then foreigners, and their lineal descendants. The court held that while this provision contained "no express words of an exclusion, from the standard which it establishes, of any persons on account of race, color or previous condition of servitude," yet "the standard itself inherently brings that result into existence since it is based purely upon a period of time before the enactment of the fifteenth amendment and makes that period the controlling and dominant test of the right of suffrage." The court also declared invalid the somewhat similar provision of a Maryland law relating to registration in municipal elections. —According to **statistics** compiled by the Tuskegee Institute 34 persons (24 being negroes) were lynched in the United States during the first six months of the year, thirteen more than in the corresponding period of 1914. Eight lynchings occurred in Georgia. Six of the negroes had been charged with offences against white women.—When a negro charged with assaulting a white woman was being taken from the Winnsboro, South Carolina, court house, on June 14, an armed mob attempted to seize him. In the struggle which followed the sheriff and five of his assistants were wounded, the negro and one member of the mob killed. Negroes charged with assaulting white women were taken from jail and lynched at Toccoa, Georgia, on June 14; at Shawnee, Oklahoma, on August 6; at Trilby, Florida, on the same day; and at Dresden, Texas, on September 4. Negroes charged with murder were lynched at Little Rock, Arkansas, on June 15, and at Sulphur Springs, Texas, on August 29. In the latter case a wounded negro was burned at the stake. Two innocent negroes were lynched at Gray, Georgia, on July 5, for supposed complicity in the murder of a planter. On October 5 prompt action by the sheriff at Bowling Green, Missouri, prevented the lynching of a negro accused of murdering a farmer. —Labor disturbances at Johnston City, Illinois, culminated in murder on June 9, and Joseph Sparanzo, who had confessed complicity in the crime, was taken from jail and lynched. The danger of armed conflict between citizens and miners made it necessary to call out the militia. The Italian consul at Chicago ordered an investigation of the lynching, Sparanzo

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having been a native of Sicily.—Leo M. Frank, a mill superintendent who had been convicted, on circumstantial evidence, of murdering a young girl, was taken from the state prison at Milledgeville, Georgia, carried 140 miles to the birth-place of his victim and there hanged. Public feeling in Georgia ran high against Frank; and the grand jury reported on September 2 that it could not discover sufficient evidence on which to return indictments.—At Columbia, Mississippi, on October 31, a white man accused of murder was taken from the county jail and hanged.

THE DEPENDENCIES—In his message to the legislature of the **Philippines**, on October 15, Governor-General Harrison recommended the continuance of emergency taxation, the establishment of an insular bank, government aid in the establishment of sugar and copra centrals, and larger appropriations for education. He criticized the previous government of the islands as careless and extravagant. The harmony existing between Americans and Filipinos politically and the efficiency displayed by the latter with the increase of local self-government were said to justify a further extension of autonomy. The Jones bill, which had failed of passage in the last session of Congress, should pass in the next.—A very different view of the situation was taken by ex-President Taft in September. Speaking in California, he expressed the conviction that the policy of displacing experienced American officials would lead eventually to the most serious complications. In September a mass-meeting was held in Cebu for the adoption of concerted action to prevent Dean C. Worcester, former secretary of the interior, from resuming his residence in the Philippines.—On June 6 a committee representing the Free Federation of Workingmen of **Porto Rico** petitioned President Wilson to investigate labor conditions there. They asserted that "the rights, the liberties, and the lives of the masses of the people are placed in jeopardy by the maladministration of the laws"; that freedom of speech and assembly, as well as other fundamental rights, had been denied. The petition urged the granting of a new constitution and the admission of Porto-Ricans to American citizenship. In September Governor Yager conferred with the President, recommending, according to the newspapers, a larger measure of home rule and admission to citizenship.

IV. LATIN AMERICA

MEXICO—While no decisive military movements occurred in May, the situation seemed to be developing favorably to the Constitutionalists; and early in the next month Obregon inflicted a severe defeat upon Villa in a five-days' battle near Leon. President Wilson's appeal for a union of contending factions (see *supra*, p. 711) found Villa in a receptive mood. Carranza, however, was uncompromising. He replied to the suggestion of a conference that the only possible basis of union was subordination to the Constitutionalist government. He issued a manifesto on June 11 promising to maintain law and order and religious freedom, to pay indemnities for

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damage done to property during the civil war, to develop educational facilities, to grant a general amnesty, to bring about the separation of church and state, and to settle the agrarian problem without recourse to confiscation. With the triumph of his party, now close at hand, elections would be held for the choice of a president.—Meanwhile conditions in Mexico City had grown very serious. Shortage of food led to rioting and looting. The Zapatista troops could not preserve order. The convention, after failing to arrange a compromise with Carranza, deposed Garza as provisional president and appointed Francisco Chazaro in his place. On July 10, after driving out the Zapatistas with heavy loss, a Constitutionalist army under Gonzales entered the capital. A few days later, however, his communications with Vera Cruz threatened, Gonzales had to withdraw. It was not until August 2 that he was able to return and to transport over the railroad, now adequately patrolled, large stores of foodstuffs for the destitute population. Disorder was sharply repressed.—Carranza now pushed his military advantage vigorously. Before the middle of September his forces had taken Saltillo, Durango and Torreon. The following of Villa apparently dwindled. His arbitrary conduct, as in the confiscation of imports stored in the railroad yards at Juarez, suggested that his situation was becoming desperate. It was made still worse by the recognition of Carranza and the embargo placed on the shipment of arms from the United States (see *supra*, p. 711). Late in October Carranza announced that he would assume responsibility for the protection of the lives and property of foreigners throughout Mexico.

THE CARIBBEAN AND CENTRAL AMERICAN STATES.—In September alleged frauds in connection with sewer and paving contracts in Havana, **Cuba**, were made the subject of judicial investigation. According to the evidence the city had been defrauded of some $1,500,000.—Early in October a revolutionary movement in **Guatemala** began to assume dangerous proportions. Several districts were placed under martial law.—Towards the end of July revolutionary successes in the north of **Haiti** began seriously to alarm the government. The steady advance of Rosalvo Bobo created panic in Port-au-Prince; and, on July 27, more than 150 political prisoners, including the former president, Orestes Zamor, were put to death. This outrage roused the populace. President Guillaume, taking refuge in the French consulate, was followed by a mob and killed. General Oscar, who had ordered the executions, was murdered in the Dominican consulate. The riots subsided only with the landing of American marines (see *supra*, p. 711). On August 12 the national assembly elected Sudre Dartiguenave as president, Bobo receiving only two votes. The new government signed an important treaty subjecting the country to an American protectorate (see *supra*, p. 712).

SOUTH AMERICA.—The budget of **Argentina** for 1916 showed an estimated surplus of 40,000,000 pesos.—In August a loan of $78,000,000 and other financial measures were authorized in **Brazil** mainly for the pur-

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pose of protecting the coffee and rubber industries.—On October 29 the cabinet of **Chile** resigned.—In **Peru** the government, anticipating a deficit of $350,000, authorized the adoption of stamp taxes and increases in the customs duties. In October the prime minister threatened to resign if a constitutional amendment establishing religious freedom should be adopted by a second passage through the legislature.

V. THE BRITISH EMPIRE.

THE UNITED KINGDOM—The liberal cabinet found itself the object of severe criticism during the first three weeks of May. A bill which imposed heavy taxation on alcoholic drinks met with such opposition from the trade and the Irish nationalists that it had to be withdrawn. Shortly afterwards Lord Fisher's resignation from the Admiralty, apparently because of disagreement with the First Lord over the Dardanelles operations, encouraged fresh attacks upon Winston Churchill and upon the cabinet which had supported his proposals. Still more damaging were the charges, vigorously pressed in the Northcliffe papers, that British losses and failures on the western front had been due chiefly to the insufficient supply of high explosive; for, according to common report, Sir John French, failing to move the war office by direct means, had brought public opinion to bear by appealing through the military correspondent of *The Times*. Beset by these and other difficulties, Mr. Asquith announced, on May 25, the reconstruction of the cabinet. There were now 22 members: H. H. Asquith (prime minister and first lord of the treasury), Lansdowne (without portfolio), Sir Stanley Buckmaster (lord high chancellor), Crewe (lord president), Curzon (privy seal), R. McKenna (chancellor of the exchequer), Sir John Simon (home secretary), Sir E. Grey (foreign secretary), A. Bonar Law (colonial secretary), Austen Chamberlain (India), Kitchener (war secretary), Lloyd George (munitions), Arthur Balfour (admiralty), Walter Runciman (board of trade), Walter Long (local government board), Winston Churchill (chancellor of the Duchy of Lancaster), Augustine Birrell (Irish secretary), McKinnon Wood (Scotch secretary), Selbourne (board of agriculture), Lewis Harcourt (works), Arthur Henderson (education), Sir Edward Carson (attorney general). The cabinet thus included 12 liberals, 8 unionists, 1 laborite, and 1 nonpartisan (Kitchener). John Redmond, the nationalist leader, had refused to join. The assignment of Churchill to a sinecure post and the creation of a new department to supervise the manufacture of munitions came naturally as the result of the recent crisis. These changes did not altogether disarm criticism, especially in view of the agitation for compulsory national service in the Northcliffe papers. In September the prime minister found it necessary to protest against the systematic efforts of a section of the press "to belittle and disparage our efforts." That entire harmony did not prevail among the ministers was seen in the resignation of Sir Edward Carson on October 18, the reason being that he found himself "unable to agree in

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any respect" with the policy pursued in the Balkans. Indeed the Balkan situation seriously embarrassed the cabinet; and on November 2, when Mr. Asquith made an elaborate explanation regarding the military and naval situation, he announced that the general conduct of the war would be entrusted to a cabinet committee of three to five members.—Early in July Parliament passed a **munitions** bill. Compulsory settlement of labor disputes was applied to all munitions industries under a wide definition and might be further extended by royal proclamation. The act further empowered the minister of munitions to designate particular plants as "controlled," this requiring that all restrictive union rules must cease, that extraordinary profits must be paid over to the state, and that no alteration of the rate of wages should be made without his consent. Meanwhile Lloyd George had appealed to labor leaders for coöperation in enlisting workers; anxious to vindicate the voluntary system, they secured the enrollment of 90,000 in the first two weeks. But on September 7 Lloyd George announced that, while he had brought 715 plants under "control" and abolished their profits, organized labor had not shown the same readiness to do its part. Output was restricted; skilled men refused to work beside unskilled; 280,000 men were still needed.—The attitude of labor perplexed the government in other ways. On July 15 a great **strike** of more than 150,000 men began in the coal fields of South Wales. The miners, denouncing their agreement with the operators and refusing the offer of a war bonus, had demanded a permanent wage increase which would have added about six pence a ton to the cost of coal; they had rejected the terms of settlement proposed by the Board of Trade. The strike took place contrary to the advice of the Miners' Federation of Great Britain and in spite of a royal proclamation which applied the restraints of the munitions act. Although the miners contended that they were simply trying to absorb a part of the war profits, it appeared that they were taking selfish advantage of a national emergency; coal was essential to the navy, the railroads, the munition factories. The government succeeded in effecting a settlement on July 19; the demands of the men being conceded at most points, they returned to work.—Labor leaders also took a determined stand against the advocates of **conscription**. The voluntary system, while surprisingly effective in raising the first millions for Kitchener's army, began to show serious limitations. Lord Haldane acknowledged, on May 13, that the government might yet find it advisable to resort to other methods; and Lord Lansdowne said that this "momentous announcement" was received with satisfaction by the House of Lords. The Unionist press and especially *The Times* urged compulsory service; nine members of the cabinet apparently favored it. In July Parliament passed a national registration bill, its purpose being to obtain particulars regarding the age and employment of all men and women between 15 and 65 and to discover what work each would be willing to undertake in the service of the state. In some quarters this was regarded as a mere preliminary to forced labor

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or conscription; and the feeling persisted notwithstanding Mr. Asquith's denials. Labor spoke in no uncertain tones. "If the conscriptionists want an industrial revolution," said a member of parliament, "let them proceed with their agitation." On September 7 the Trades Union Congress unanimously condemned compulsory service. Nevertheless the same body, holding that the successful prosecution of the war was of "transcendent importance," urged organized labor to conduct a vigorous recruiting campaign. This began on October 6. At the same time the war office entrusted Lord Derby with the general direction of the recruiting and informed him that 30,000 men must be secured each week to maintain the efficiency of the army. The voluntary system was to receive a fair and final test before resort was had to any system of compulsion.—On September 15 the war secretary announced that nearly 3,000,000 men had enlisted. Losses from the beginning of the war to October 9 were 493,294, including 101,652 killed and 74,177 missing.—On May 4 Lloyd George made his second **budget** speech since the opening of the war. Expenditure for the fiscal year 1916 would aggregate £1,136,434,000 if the war continued through that time; the army would cost £600,000,000; the navy, £146,000,000; and £200,000 would be loaned to allies and the Dominions. Revenue was estimated at £270,182,000. Parliament voted war credits in June (£250,000,000), July (£150,000,000), and September (£250,000,000), bringing the total war expenditure to £1,262,000,000. Mr. Asquith announced on the last date that the war was costing £3,500,000 a day and would cost more. Late in June the government invited subscriptions to a war loan which was issued at par and bore interest at four and a half per cent. Nearly 600,000 persons participated in the loan, the amount subscribed approaching £600,000,000. The steady increase in military expenditure made it necessary to find new sources of revenue. The chancellor of the exchequer, believing that great sacrifices must be made in order to save the country's financial position from lasting impairment, recommended new taxation of a drastic kind. The principal blow fell upon incomes, the existing tax being increased by 40 per cent, the exemption lowered to £130, and the supertax on incomes larger than £8000 fixed at 42 pence. A special tax of 50 per cent was placed on war profits; increases were made in telegraph and telephone rates; customs duties on tea, coffee, chicory, tobacco and dried fruits were increased by 50 per cent; and, "for purely temporary objects," mainly to discourage imports and reduce consumption, a 33⅓ per cent tariff was laid on motor cars, hats, musical instruments and a few other commodities. The board of trade returns for September showed that imports had increased by £25,296,000 and exports by £5,634,000.—In July an inventions board, with Lord Fisher as chairman, was established to assist the admiralty in coördinating and encouraging scientific effort in relation to the requirements of the service. On May 12 a committee, of which Lord Bryce was chairman, reported on the outrages committed by German troops during the

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war. "Murder, lust, and pillage prevailed over many parts of Belgium on a scale unparalleled in any war between civilized nations during the last three centuries."—The sinking of the "Lusitania" (see *supra*, p. 706) together with aërial raids on the east coast of England precipitated anti-German riots in London. As a result provision was made for the internment of adult male enemies and the repatriation of those not subject to military service.—To avoid domestic controversy the government bill providing that the disestablishment of the Welsh church should be postponed till after the war (see last RECORD, p. 368) was withdrawn on July 26, the same object being secured by order in council.

CANADA.—In July Sir Robert Borden visited England to discuss with the government questions relating to the war. His presence at a cabinet meeting on July 14 established a precedent which suggested possibilities in the future development of imperial relationships.—The full strength of the expeditionary force was raised to 150,000 in July and to 250,000 in October. At the close of the latter month 101,500 men had been sent abroad; 71,500 were in training. Recruiting in the province of Quebec met with organized obstruction on the part of French-Canadian Nationalists. Parliament established a system of liberal pensions for the widows of those killed in war, the minimum allowance being $22 a month with $5 for each child.—A number of political **scandals** attracted much public attention. The most disgraceful were connected with army contracts; and one member of parliament concerned in these was forced to resign his seat. In Manitoba the Conservative government of Sir Rodman Roblin, becoming implicated in serious charges, resigned on May 12. Investigation afterwards showed that a contract for the erection of the parliament buildings had been corruptly awarded and that the contractor had been overpaid by some $820,000. Roblin and three members of his cabinet were subsequently arrested on the charge of conspiracy. Meanwhile the Liberals, though not entirely innocent themselves, swept the province in the election, winning all but six of the assembly seats.

AUSTRALIA AND NEW ZEALAND.—By the autumn **Australia** had 92,000 men serving at the Dardanelles and in other theaters, while an additional 60,000 men were being trained for service. In June New South Wales reserved 25,000 acres of wheat lands and 250,000 acres of irrigated land for the settlement of soldiers after the war. It was announced in September that a war loan of £5,000,000 (the first instalment of £20,000,000) had been oversubscribed.—By October **New Zealand** had sent 25,000 men to join the British armies. Under a system of pensions, established in July, a disabled private soldier will receive 25 shillings a week; if married, £97 10s a year with £13 for each child. In the summer the government was authorized to float a war loan of £10,000,000. A coalition cabinet of 12 members was formed on August 6, F. W. Massey remaining prime minister and Sir Joseph Ward becoming minister of finance.

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OTHER POSSESSIONS.—Leaders of the rebellion in **South Africa** were convicted of treason in June and July. Christian De Wet was condemned to six years imprisonment and a fine of $10,000. After the conquest of German Southwest Africa (see *supra*, p. 706) the Union sent 6500 men to fight in Europe. Party feeling ran high in the election campaign. The Nationalists, led by General Hertzog, condemned the invasion of German territory and the sending of a contingent to Europe; they also demanded a general amnesty for those concerned in the "armed protest." The Labor party stood squarely behind the imperial government in all that concerned the war. The elections, which occurred in October, gave to supporters of Botha (the South African and Unionist parties) 94 of the 130 seats.—In August the government of **India**, with consent of the secretary of state, postponed elections to the various legislative bodies for a period of six months. In spite of strict censorship occasional frontier disturbances were reported; evidently they were little more than tribal forays which, in view of the continued friendship of Afghanistan, caused no great concern. If unrest prevailed in India, no definite facts were allowed to reach the outside world.—Racial and commercial animosities led to rioting in **Ceylon** on May 28, the birthday of Buddha. The disturbances began in Kandy, where Moslem shops were looted, and spread through the central provinces before troops were ordered to repress them. According to German reports, the whole island was in a state of rebellion throughout the summer.

VI. CONTINENTAL EUROPE.

FRANCE.—Parliamentary criticism of the cabinet, as being too autocratic and too independent of the chambers, began to develop in June and gradually concentrated on Millerand, the minister of war. First he was attacked for unwillingness to delegate his functions to those less burdened with work; as a result the services of transport, sanitation and munitions were entrusted to three undersecretaries of war. The removal of General Sarrail became the next grievance; he was then given command in the Dardanelles. Finally, late in August, when Millerand had defended a subordinate believed to be responsible for defects in the sanitary service, the socialists and radical-socialists demanded a secret session of the chamber and a detailed statement of the military situation. An eloquent appeal by the prime minister relieved the tension and secured a vote of confidence. But unfortunate developments in the Balkans, followed by the resignation of the foreign minister (Delcassé), revived the attacks on October 13. The diplomatic and military conduct of the government in the Balkans was severely criticized; and although the chamber expressed confidence in the cabinet by a majority of 372 to 9, more than 150 members (largely socialists) declined to vote. Unable to command the support of all parties, Viviani resigned on October 28. Next day a **coalition** cabinet was formed under Aristide Briand, who himself assumed the portfolio of foreign affairs. The other members of the cabinet were: Jules Cambon (general secretary

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of the ministry of foreign affairs), de Freycinet (state), General Galliéni (war), Viviani (justice), Malvy (interior), Lacaze (marine), Ribot (finance), Painlevé (instruction and inventions), Sembat (public works), Clementel (commerce), Doumergue (colonies), Malines (agriculture), Matin (labor), and (without portfolio) Combes, Bourgeois, Cochin, Guesde. There were also eight undersecretaries. Announcing the ministerial policy, Briand declared on November 3 that France was determined to carry the war to victory and durable peace. He described the measures which had been taken to ensure closer coöperation between the Allies, the visits of General Joffre to England and Italy having borne fruit in coördinated action between the general staffs. As to the Balkans, Great Britain and France were in complete accord and would never abandon Servia. The chamber approved of this declaration by a vote of 515 to 1.—In June new measures were adopted to increase the supply of **munitions**. Skilled mechanics, who had been drawn from the factories by mobilization, were now brought back, a mixed commission of employers and employees being appointed to supervise the work. By the middle of the month more than 650,000 men were employed in producing munitions.—In June Parliament appropriated 5,600,000,000 francs to defray the cost of the war during the third quarter of the year; in September, 6,200,000,000 francs for the last quarter. This brought the cost of the war for the first seventeen months to 28,200,000,000 francs. Public subscriptions to the national defence bonds aggregated 995,000,000 francs in April, 1,007,000,000 in May.

RUSSIA—The series of military reverses which began in May and lasted till October (see *supra*, p. 702) served only to emphasize the solidarity of the nation in its resolution to carry the war to a successful issue. As in Great Britain, efforts were directed towards increasing the supply of **munitions**. In June a central board was established, including the minister of war, the president of the Duma, members of the council of the empire, and representatives of industry and commerce; and in August the board was strengthened by the addition of nine members of the Duma and invested with final authority to regulate supplies of all kinds. Through local subcommittees the resources of the country were gradually concentrated upon this supreme object. By arrangement with the Japanese government, moreover, enormous supplies were brought over the trans-Siberian railroad. The combined results of these measures were seen in the aggressive spirit of the Russian armies during the month of October. The determination to conduct the war more vigorously found expression in other ways. On June 28 General Sukhomlinoff, minister of war since 1909, was superseded by General Polivanoff, whose appointment was popular in Duma circles; two months later General Alexieff became chief of staff; and on September 7 the Czar himself assumed active command of the armies, transferring Grand Duke Nicholas to the Caucasus. War **finances** caused great concern because Russia, unable to export her products, had to face a most unfavorable rate of exchange in her purchase of war supplies abroad. The

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minister of finance, however, visiting Great Britain and France in September, arranged for substantial advances from both countries. The debt contracted during the first thirteen months of the war aggregated $2,407,883,000. When the **Duma** assembled on August 1, a new spirit of confidence characterized the proceedings. The liberals particularly showed a disposition to participate more actively in the affairs of the Empire. Through the efforts of Miliukoff, leader of the Cadets, and Guchkoff, leader of the Octobrists, all the parties except the extreme right, the nationalists and the social democrats, were formed into a "progressive bloc" ommanding 300 out of 439 votes. They formulated a comprehensive program: autonomy for Poland and a conciliatory policy for Finland; full civil rights for the Jews; abolition of feudal privileges in the Baltic provinces; reform of the zemstvos; recognition of trade unions; extension of the suffrage; responsibility of ministers. A movement was set on foot to impeach Sukhomlinoff for his failure to provide the army with munitions. The prime minister felt that this program, though not intended to be immediately effective, would have an unfortunate effect upon the people and divert energy from the prosecution of the war. On September 16, therefore, the Duma was prorogued for two months. At once a storm of public disapproval broke. Strikes, riots, and general confusion seemed imminent. Only the patriotism of the leaders prevented a disastrous general strike.—Early in the summer anti-German riots occurred in Moscow, the damage to property being estimated at $20,000,000.—On June 25 the cabinet appointed a commission consisting of six Russians and six Poles to work out the preliminaries of Polish autonomy in conformity with the proclamation of Grand Duke Nicholas (RECORD of December, 1914, p. 756).

GERMANY—In July, newspaper despatches seemed to indicate that the economic condition of the empire remained strong and that, in spite of the British blockade, the shortage of **food supplies** had entailed no very serious privations. Nevertheless, the entire control of foodstuffs and military supplies was taken from the states and assumed by the imperial government, a central court of arbitration being erected to determine all questions regarding the maximum prices of commodities; and, in the autumn, reports of distress and rioting became more and more specific. Although these were denied by the government as inventions of the enemy press, they were confirmed to some extent from German sources. The *Vorwärts* on October 10 estimated that since the opening of the war the cost of necessities for a working man's family had increased 75 to 100 per cent without any corresponding increase in wages; and an economist, writing in another Berlin paper, fixed the increase at 64 per cent and held that suffering would increase in the winter. Indirect evidence seemed to be provided by the appearance of a **peace propaganda**. On June 9 an open letter to the executive committee of the party was signed by 700 Social Democrats, including 15 deputies and 26 leading journalists. The party, it urged, should demand the immediate termination of the war, since the ruling

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class were openly bent upon territorial conquests. The committee, in replying two weeks later, justified the course which that party had taken, but declared that the party was opposed to all wars of conquest and used this significant sentence: "We demand of the government that it make known its readiness to enter upon negotiations in order to put an end to this bloody conflict." The *Vorwärts*, which published this reply, was suppressed for a time in consequence.—On August 19 the Reichstag assembled. The chancellor, recounting the diplomatic events which had preceded the outbreak of war, made statements which reflected upon the honesty of Sir Edward Grey. Referring to the Poles, he believed that, liberated from the Russian yoke, they could contemplate a happy future and develop the individuality of their national life.—The third German **war loan** was offered early in September at 99, bearing interest at five per cent; it was announced on September 22, that more than 12,000,000,000 marks had been subscribed. The aggregate of the three loans was 25,000,000,000 marks.—In July the imperial government published an official reply to the Bryce report on the Belgian atrocities (see *supra*, p. 727). The main contention was that the Belgians had invariably violated the Geneva convention by carrying on a deliberately-planned guerilla warfare.—Down to September 28, Prussian casualties in the war were 1,916,148.

AUSTRIA-HUNGARY.—The necessity of conserving the food supply led the government of Hungary to sequestrate the entire cereal crop with the exception of maize and to establish under the department of commerce machinery for regulating the whole grain trade, even including supplies for the army. The influence of the great landowners, however, prevented any lowering of maximum prices after the harvest; and in the autumn the high cost of foodstuffs, combined with the reduction of wages, brought great hardships upon the working class. The price of meat had advanced three or four hundred per cent. In September all factories making cotton yarn were closed by decree and required to deliver their cotton stock for the use of the army. This decree affected Czech industries especially.—Although Germany had advanced $500,000,000 in April, it became necessary in the next month to float a new internal loan. No efforts were spared to insure its success, the government press making pointed reference to the profits which landed proprietors had made in the sale of grain and which contractors had made, sometimes by fraud, in supplying the army. Nevertheless, by the end of June, only $300,000,000 had been subscribed.

ITALY AND THE HOLY SEE.—During the early part of May the attitude of government and public alike seemed to indicate an ultimate decision for **war.** Partial mobilization was ordered on the 9th, and large forces began to concentrate at Verona and other points in the north. Not only did popular demonstrations in the large cities urge the government to action, but Giolitti, the former prime minister, became the object of insistent attack because of his efforts in favor of peace. On the 13th Salandra tendered his resignation, declaring that the cabinet did not

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possess that general support of all the parties which the gravity of the situation required; and only when Giuseppe Marcora, president of the chamber, and Paolo Carcano, a member of the out-going cabinet, refused to supplant him, did he consent to the king's request that he remain in office. During the crisis public apprehension of intrigue on the part of Giolitti had led to serious rioting which necessitated the use of the military; and the relief which the triumph of Salandra occasioned found expression in parades and other evidences of rejoicing. Events now moved rapidly. Parliament entrusted the cabinet with full powers for the conduct of war; martial law was proclaimed in a large part of northern Italy; complete mobilization of army and navy was ordered; and, on May 23, war was declared against Austria-Hungary.—In October the government announced an internal loan of $25,000,000, taking the form of one-year six-per-cent notes. The purpose was to give stability to exchange and pay for military supplies. On October 20 a decree was issued creating new taxes and increasing other taxes for the duration of the war.—On June 21 M. Louis Latapie described in *La Liberté* of Paris an interview with the Pope as to questions arising out of the war. Since Latapie represented the Pope as entertaining opinions unfavorable to the Allies, great resentment was manifested in Italy and France, even among the clergy. The archbishop of Ancon promptly issued a pastoral justifying, in ardent terms, the Italian cause. So emphatic were the protests that efforts were made to correct the unfortunate impression. The papal secretary of state declared that Latapie had invented many of his serious assertions and that he had misrepresented the Pope by using phrases out of their proper context. Benedict himself, in a letter to Cardinal Amette, asserted that the article "reproduced neither our thought nor our words."—On July 28 the Pope suggested to the heads of belligerent states that an exchange of views might lead to the termination of the war.—The Spanish bishops, in June, invited the Pope to transfer the Holy See to Spain.

GREECE.—In the general elections, which were held in Greece on June 13, Venezelos obtained 186 of the 316 seats. When the chamber met on August 16, four weeks after the time originally fixed, the government was decisively beaten on the first important division and resigned. Venezelos thereupon assumed office, retaining himself the direction of foreign affairs. He took the view that if Bulgaria, joining the Central Powers, should invade Servia, Greece would be bound by treaty obligations to render military assistance to Servia. He mobilized the Greek army on September 23 and secured from the Allies the promise of 150,000 men. When the first detachments landed at Salonica, however, he found it necessary to make formal protest against the violation of Greek neutrality; and although on October 5, the chamber, by a vote of 142 to 102, gave evidence of its unshaken confidence, the king forced the cabinet out of office on that very day. A new cabinet, formed ten days later by Alexander Zaimis, included Ghounaris (interior), Yanakitsas (war) and Rhallis (justice). Zaimis an-

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nounced that Greece would maintain a position of armed neutrality for the present and adjust her conduct to the march of events. He did not ask a vote of confidence; but Venezelos promised support so long as the principles of his policy were followed, the question as to war being "when" and not "whether." That support was withdrawn on November 4 when Zaimis had refused the British offer of Cyprus as the price of Greek intervention in the war. Defeated by a vote of 147 to 114, the cabinet resigned.

TURKEY.—On October 3 a committee of distinguished Americans made public a report of its investigation into the alleged Turkish atrocities in Armenia. Basing their conclusions on data of "unquestionable veracity, integrity and authority," they found that "crimes now being perpetrated upon the Armenian people surpass in their horror and cruelty anything that history has recorded during the past 1000 years." Lord Bryce, speaking in the British Parliament, estimated that 800,000 had been slain. Not a case in history, he said, since the days of Tamerlane, when a crime so hideous and on so gigantic a scale had been committed. It was a deliberate and premeditated plan to exterminate a nation. On October 12 the American ambassador to Turkey reported that the massacres had been renewed.

OTHER EUROPEAN STATES—A new constitution, which extends the suffrage to women and abolishes the special electoral privileges exercised by the wealthier classes, was promulgated in **Denmark** on June 5. Women will not only vote in the election of both houses, but also be eligible for membership. The Landsthing will consist of 72 members, 18 being chosen by the present house and 54 by an indirect but democratic proportional system. The Folkething, in addition to the 114 members now chosen in single-member constituencies, will have 26 chosen by proportional representation. By gradual steps the voting age will be reduced from thirty to twenty-five years.—On October 11 the women of **Norway** voted for the first time under the new electoral law which grants them the suffrage irrespective of the amount of income tax paid; that is, on the same basis as men. Great resentment was manifested in August when a German submarine seized the mails on board a Norwegian steamer bound for England; formal protest was made to Berlin.—Dissatisfaction with the government of Pimento de Castro (see last RECORD, p. 375) developed steadily among radical republicans in **Portugal.** His failure to summon parliament, his alleged intrigues with monarchists, his weak attitude toward German aggressions in Angola brought matters to a crisis. In the week of May 9 insurrection began in Lisbon, Oporto, Coimbra and other cities. The sailors of the navy mutinied and, after killing their officers, bombarded the capital. By the 16th the revolution was an accomplished fact, Castro being a prisoner and João Chagas prime minister in his stead. Although Chagas was dangerously wounded by a political opponent and thus forced to resign on May 25, the same cabinet continued in office under Jose de Castro, who was sustained in the June elections. On May 29 Theopileh

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Braga was elected president for the unexpired term of Manuel de Arriaga, who had resigned because of his failure to reconcile the contending political factions. On August 6 the national assembly elected as the new president Bernardino Machado who, like the prime minister, entertained strong pro-British sentiments. Monarchical risings occurred in northern Portugal and necessitated the proclamation of martial law on August 29.—In **Spain** the government attempted to float a loan of $150,000,000 issued at par and bearing four and a half per cent interest; but only a small fraction of the amount was subscribed. When, on June 22, Dato, the prime minister, offered his resignation, the king persuaded him to remain in office.—In September **Sweden** enforced her protests against the British orders in council by suspending trade relations with Russia until concessions should be made. A Swedish submarine was attacked on October 21 by a German vessel which had mistaken its nationality, but prompt regrets were offered by the German government.—On June 7 a referendum vote in **Switzerland** authorized special war taxation which was intended to yield 60,000,000 francs. Up to the end of August mobilization had cost 140,000,000 francs.

VII. ASIA.

CHINA.—It was reported in August that Yuan Shih-kai contemplated a restoration of the monarchy since republican institutions were unsuited to the existing circumstances of China. In a message to the council of state, on September 6, he declared that it was his special duty to protect the republic, yet "many citizens from the provinces have petitioned the acting parliament to change the form of government. As the presidency is conferred by the will of the people, its existence also should depend on their will." A month later the council of state formulated a constitutional amendment for submission to a national convention whose members should be chosen by provincial conventions. In spite of the advice offered by Great Britain, Russia and Japan, on October 29 the local elections were held in due course. According to an official statement the delegates from 11 of the 18 provinces would be unanimously for monarchy. The resignation of the prime minister, Hsu Shih-Chang, who was known to oppose the change, indicated that the fate of the republic was practically settled.

JAPAN.—The Diet's failure, because of dissolution, to make appropriations for the year 1916 compelled the government to follow the budget arrangements for the previous year and to apply in May for supplementary credits. On June 1 the lower house sanctioned, by a vote of 232 to 131, an increase of 24,000 men in the military establishment. The course of negotiations with China (see *supra*, p. 712), however, subjected the cabinet to continual attack; and a fresh embarrassment arose on June 5 when the minister of the interior was accused of election bribery. His resignation on July 29 was followed next day by that of the cabinet, but, at the request of the emperor, Okuma remained in office with a reconstructed cabinet, Baron Kikujiro becoming foreign minister and Ichiki minister of the in-

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terior.—While deciding that the despatch of Japanese troops to Europe would be impracticable, Okuma made every effort to increase the manufacture of munitions so as to meet the deficiency which existed in Great Britain and Russia.

[For colonies and dependencies in Africa and Asia, see the United States, the British Empire and Continental European states, *supra*.]

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